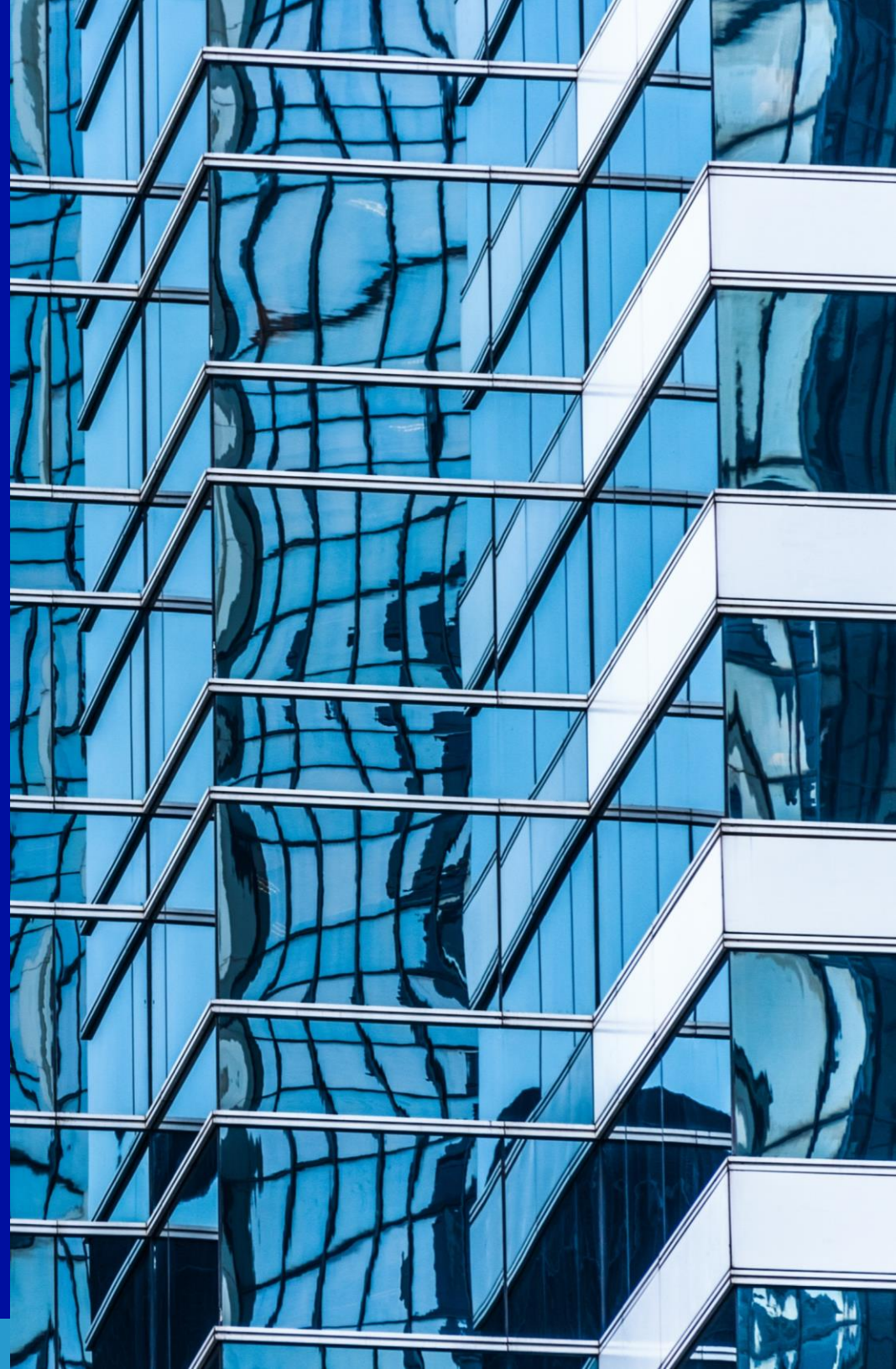




# 3Q20 United States Capital Markets Report

NEWMARK



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# Market Observations

## What We Know

- ☒ Total investment volume increased by 37.0% quarter-over-quarter, indicating that overall market conditions are improving. However, volume is still down over 50% year-over-year. Multifamily continued to attract the most volume of all property types, while 1Q-3Q industrial volume has surpassed office volume for the first time in recorded history.
- ☒ Market price discovery has improved, with V-shape recoveries occurring in industrial logistics, garden style multifamily in Sunbelt markets, life science/R&D and suburban office. Ample dry powder has allowed buyers to quickly pivot to assets perceived to be less vulnerable to COVID-19, and low lending rates have allowed for sellers to exit at prices that align to their original underwritten values despite lower growth expectations.
- ☒ Public REIT pricing has continued to reinforce the market's confidence in data centers, industrial logistics, life science and self storage. These four REIT segments have recorded positive total returns year-to-date, while both retail and healthcare REITs have recovered substantively since March.
- ☒ According to NCREIF, rent collection improved across all property types in September at 93.7% for multifamily, 91.8% for office, 94.4% for industrial, and finally 70.5% for retail.
- ☒ Lending activity has been less severely impacted compared with the investment sales market, particularly for office, multifamily and industrial product. GSE lending continues to be buoyant, as Fannie Mae and Freddie Mac remain the backstop to over half of the existing multifamily product nationally. CMBS delinquency has been largely contained within the retail and hospitality sectors.
- ☒ Elections at the federal level have a limited impact on property performance in the long run – the NCREIF property index has continued to expand, regardless of which party holds office. Local policy as it pertains to property and corporate taxation, zoning and rent regulation, on the other hand, does have a significant impact on property markets and capital markets activity.

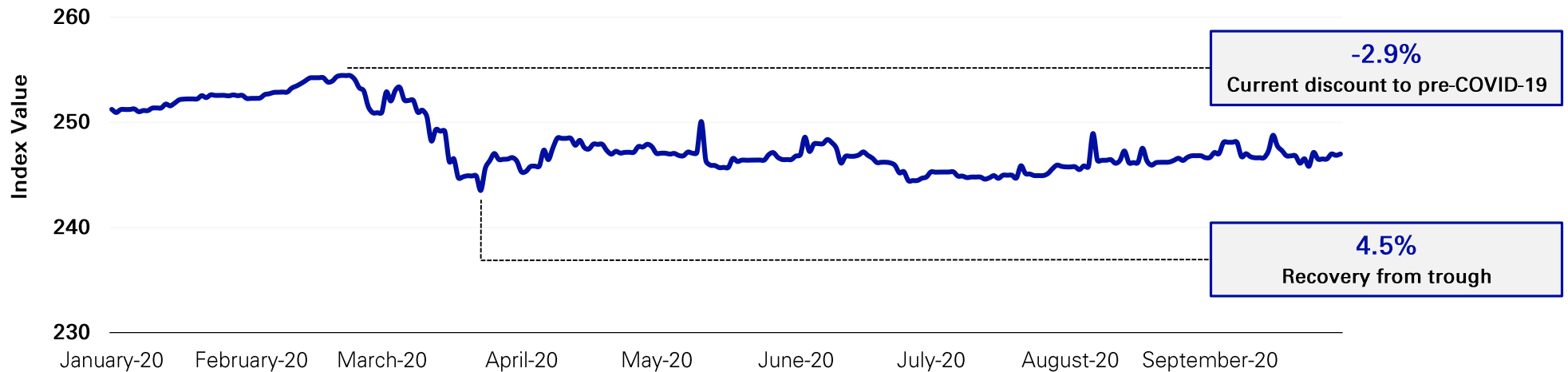
## What We Expect

- ☐ The federal government is expected to continue robust stimulus measures post-election. The combination of expansionary monetary and fiscal policy will continue to help sustain confidence to institutional investors targeting investments in both public and private real estate markets.
- ☐ Distress and large discounts to pricing for property types outside of retail and hospitality are limited. Given the nature of the pandemic and resulting recession, many landlords have been able to seek forbearance and relief and continue to hold underperforming assets, which could push these opportunities 1 to 2 years into the future.
- ☐ While investment volume might remain at lower levels throughout COVID-19, partial interest sale opportunities will remain a viable option for asset capitalizations. Landlords are incentivized to consider recapitalizations due to their ability to unlock value at attractive valuations with future upside.
- ☐ Life science real estate will be pushed further into the mainstream as investors outside of the traditional REITs and private equity groups search for secular growth opportunities. Concurrent trends of “on-shoring” as well as innovation in biotechnology and medical devices promises to propel the market share of life science and healthcare companies along with their real estate requirements.

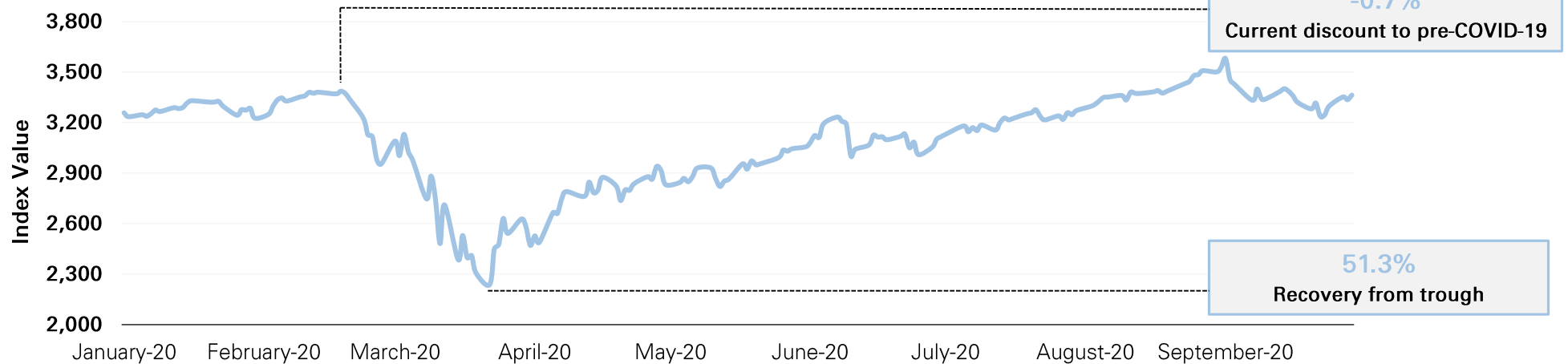
# COVID-19 Initial Impact: NCREIF vs. S&P 500

As of the end of the third quarter, the public markets had recovered to within 1% of their pre-COVID-19 peak and had increased 51.3% since the trough in March. Optimism was also reflected in the NCREIF Index over the same period, however not to the same degree – while recovering 4.5% from the trough, the private real estate market has not returned to pre-COVID-19 levels, hampered by uncertainty for vulnerable property types and markets.

## Daily Priced NCREIF Index



## S&P 500 Index



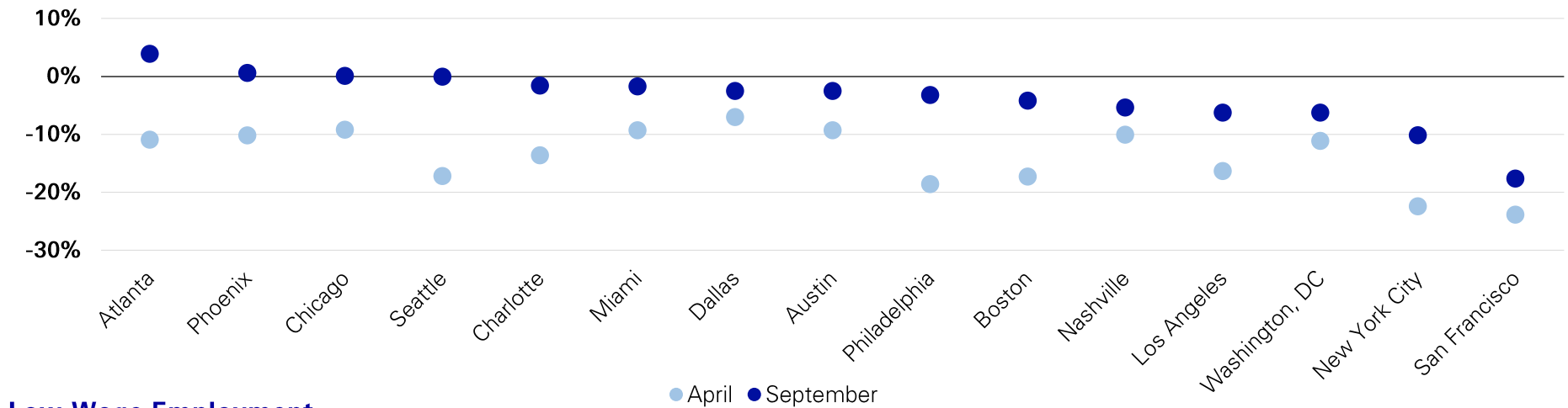
Source: Newmark Research, NCREIF, FRED

# Recovery in Office-Using Employment

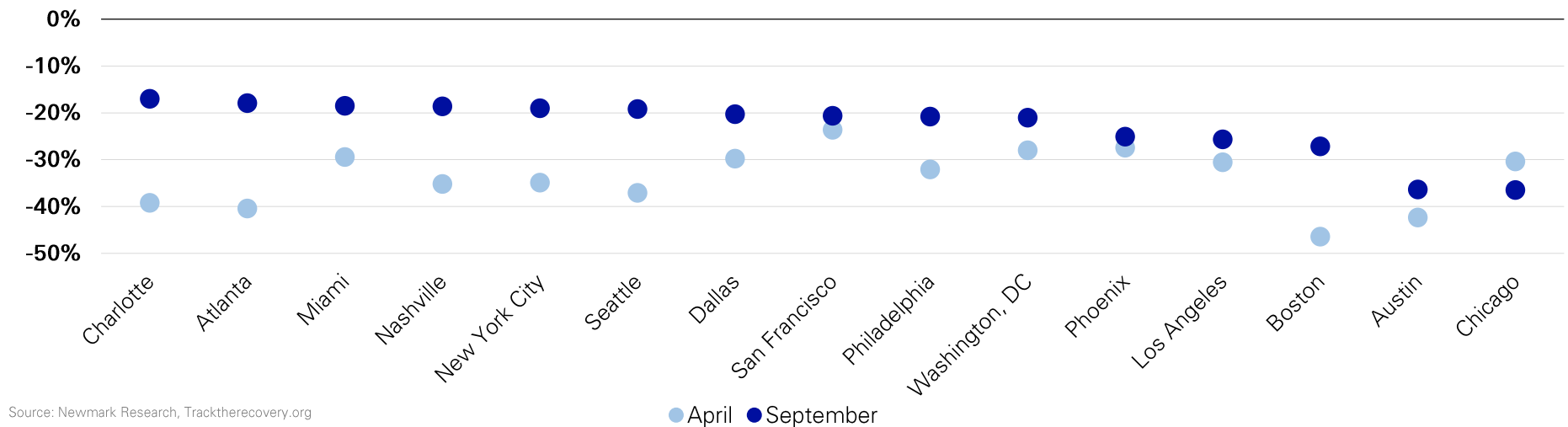
## Change in Employment Rates, Indexed to January 2020

While both high and low-wage employment rates have recovered since the beginning of COVID-19, the accompanying recession has been more severe for low-wage, largely not officing-using workers. As of September, high-wage employment rates have managed to return to near pre-COVID-19 levels in the majority of US markets.

### High-Wage Employment



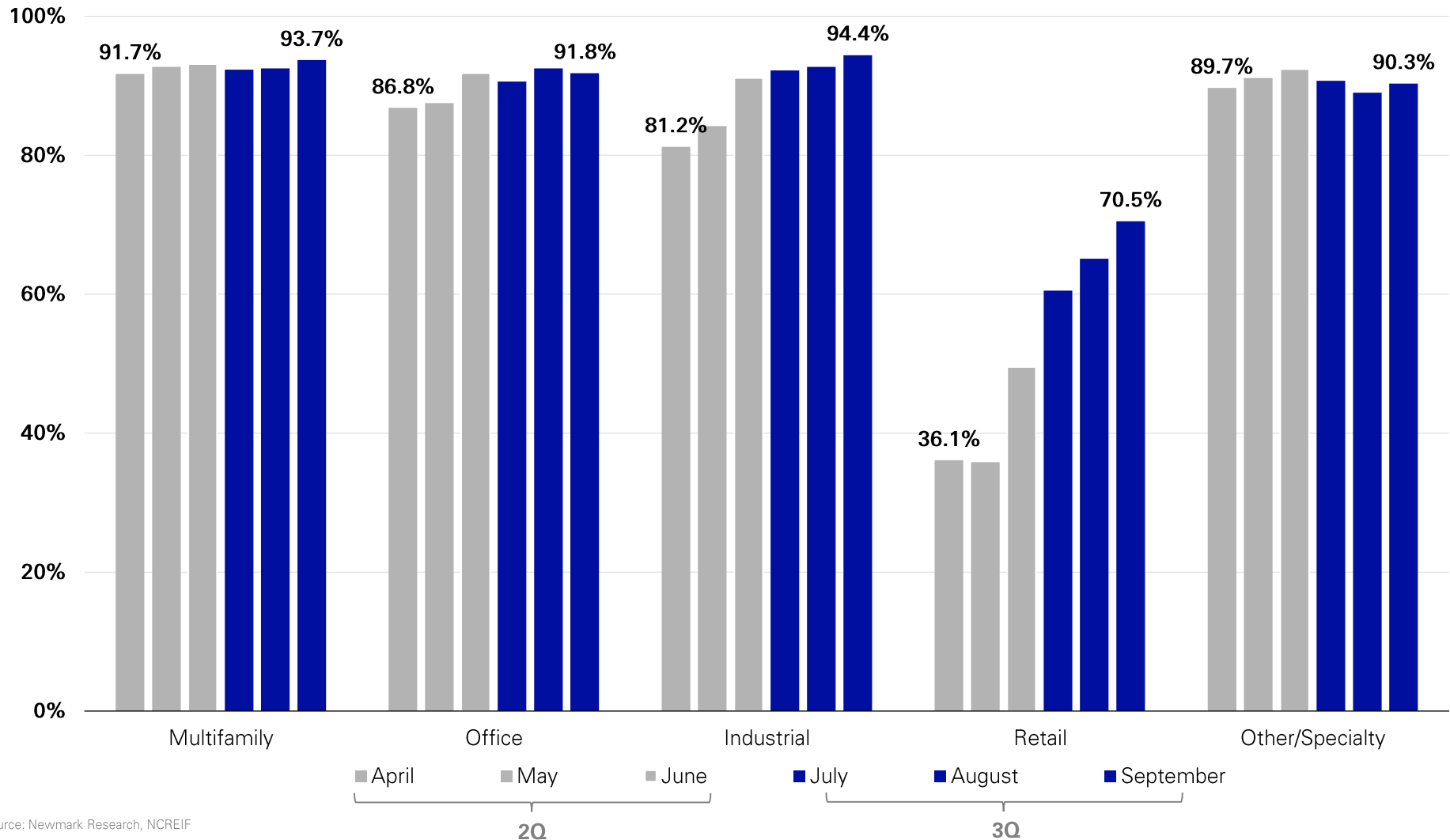
### Low-Wage Employment



Source: Newmark Research, [Tracktherecovery.org](https://www.tracktherecovery.org)

# Rent Collection by Property Type

Increases in economic activity and easing of COVID-19 restrictions have improved market confidence, helping boost rent collection in all property types. Retail recorded the largest improvement, reaching 70.5% in September from just 36.1% in May, while industrial finished the third quarter with the highest rent collection of all property types, reinforcing the positive momentum in sector from e-commerce and supply chain reorganization.



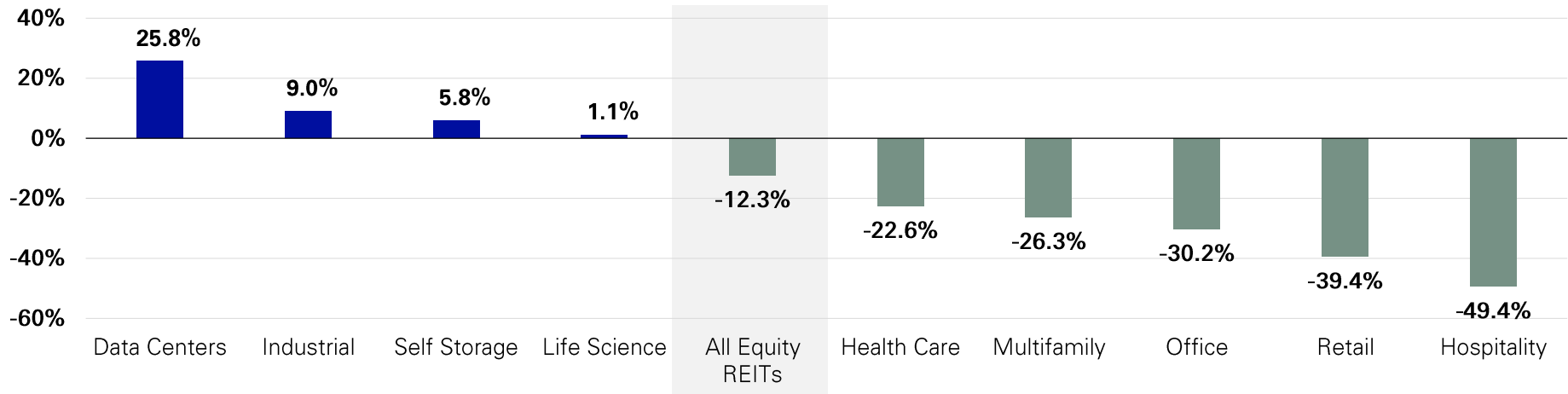
Source: Newmark Research, NCREIF



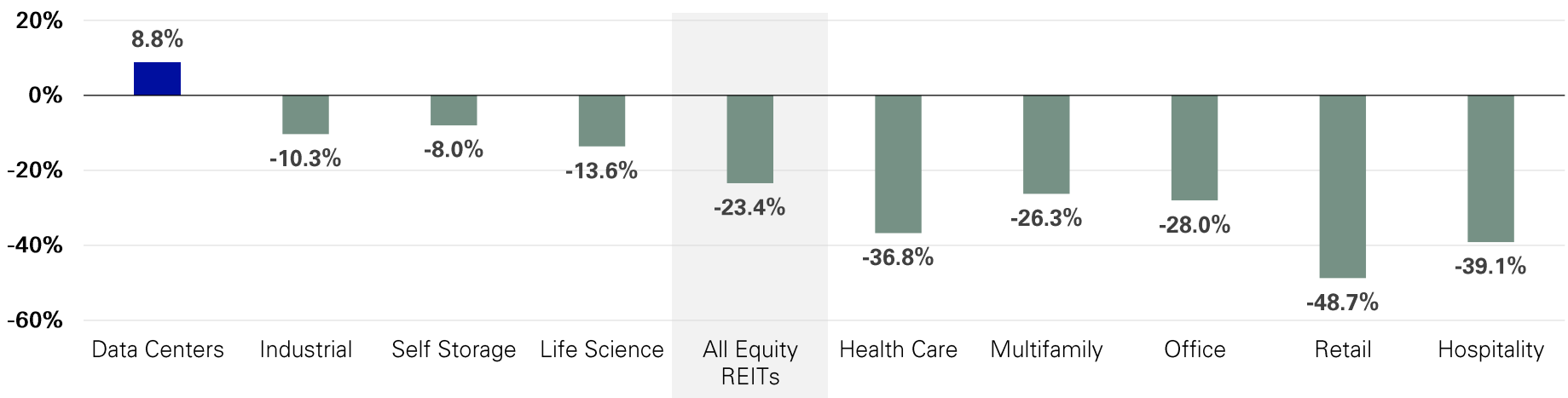
# REIT Performance by Property Type

Data center, industrial, life science, and self storage REITs have achieved positive total returns in 2020, reflecting investor preferences for assets perceived to be less vulnerable to COVID-19. Positive movement has also been recorded in both the healthcare and retail sectors since the market bottomed in March, as outpatient procedures and medical treatments have resumed after lockdowns, and as consumer spending has recovered substantially.

## 2020 Year-to-Date Total Returns (As of September 30<sup>th</sup>)



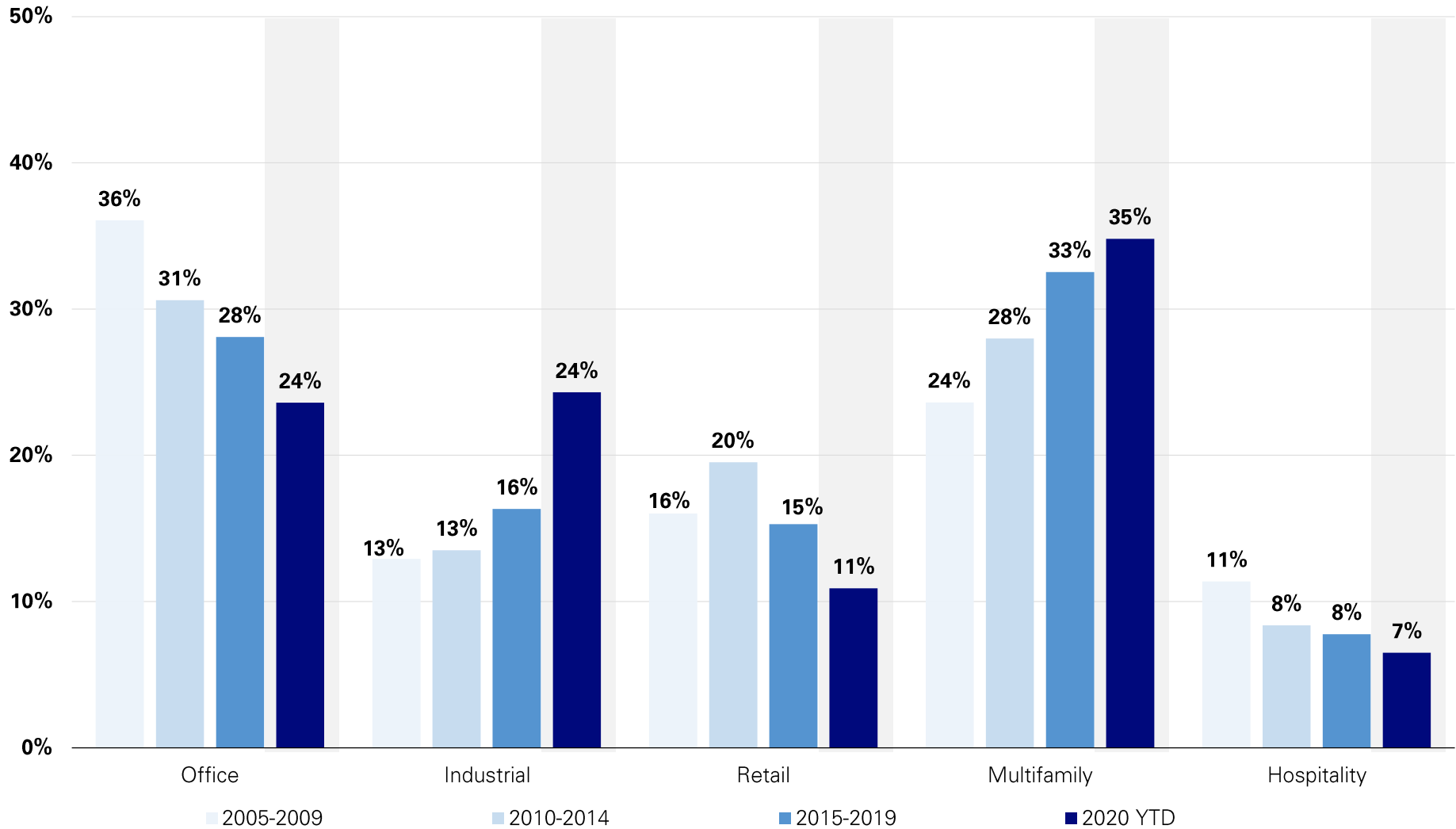
## 1Q20 Total Returns



Source: Newmark Research, NAREIT

# Investor Allocation

The pandemic has accelerated investor allocation trends, favoring multifamily and industrial logistics product as well as life science and R&D office product. The allocation to industrial has been record-breaking, with 2020 allocation soaring to just over 24% of the total investment volume as funds seek secular growth opportunities.

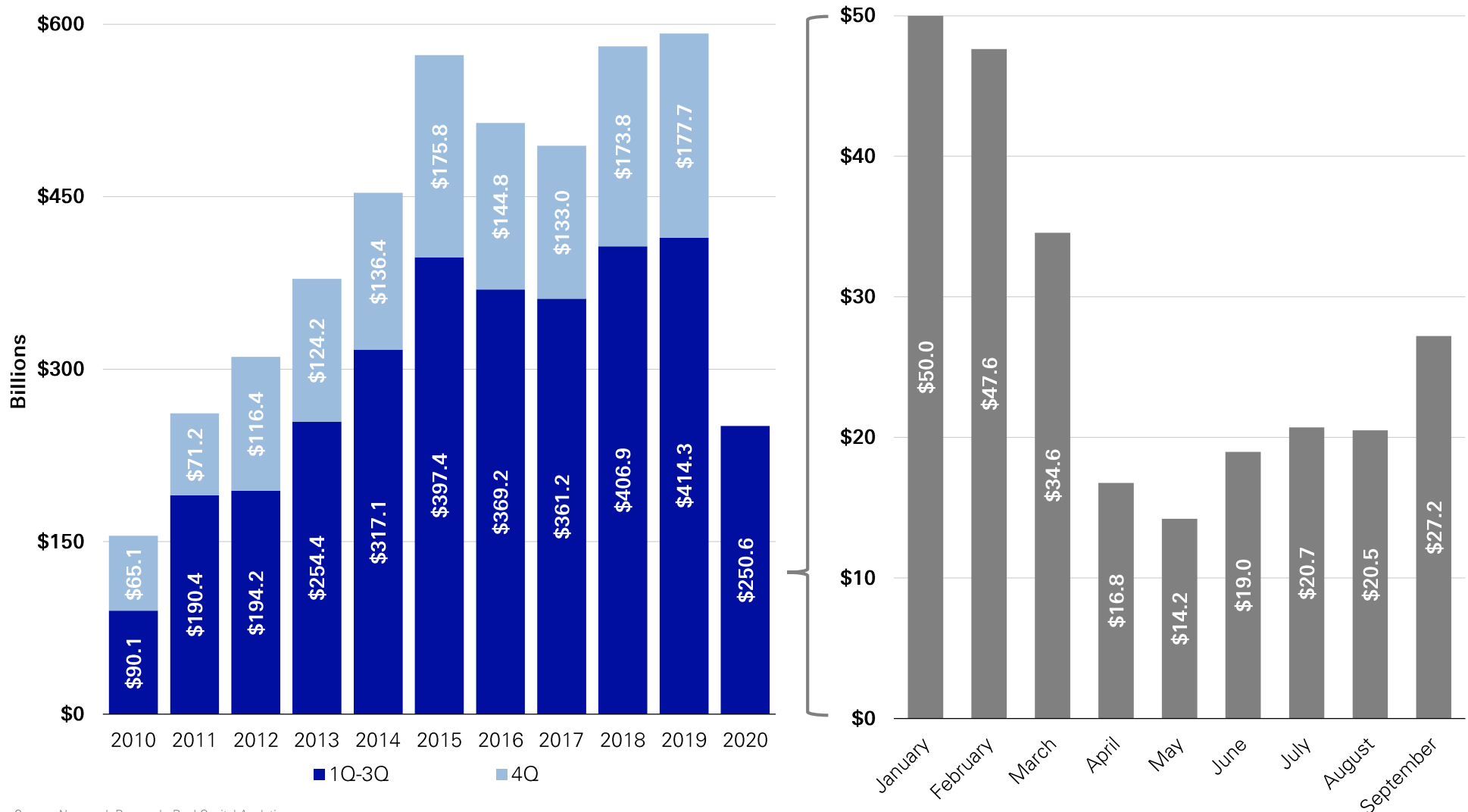


Source: Newmark Research, Real Capital Analytics



# United States Total Sales Volume

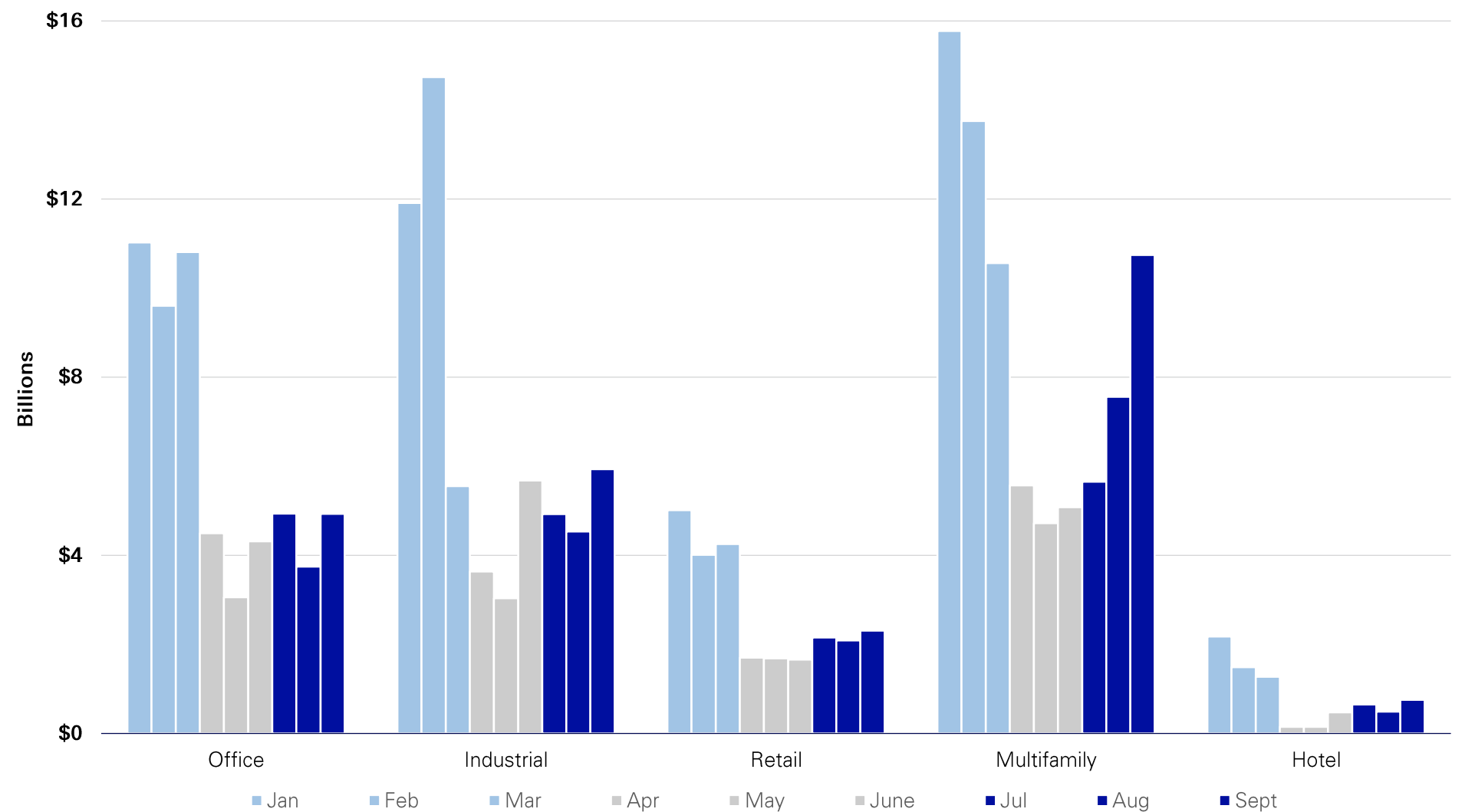
Year-to-date volume is down 39.5% compared with the same period in 2019, as COVID-19 continues to impact investor confidence. However, overall economic activity has recovered substantively since the second quarter, as Federal Reserve policy remains accommodative and debt markets remain stable. Monthly volume bottomed in May at just \$14.2 billion but has increased, averaging \$22.8 billion per month in the third quarter.



Source: Newmark Research, Real Capital Analytics

# Monthly Volume by Property Type

While monthly investment volume improved across all property types in the third quarter, the clearest recovery has been in multifamily. Continued agency lending, high rent collection and past demand for rental housing following economic disruptions has improved investor sentiment and led to higher deal volume.

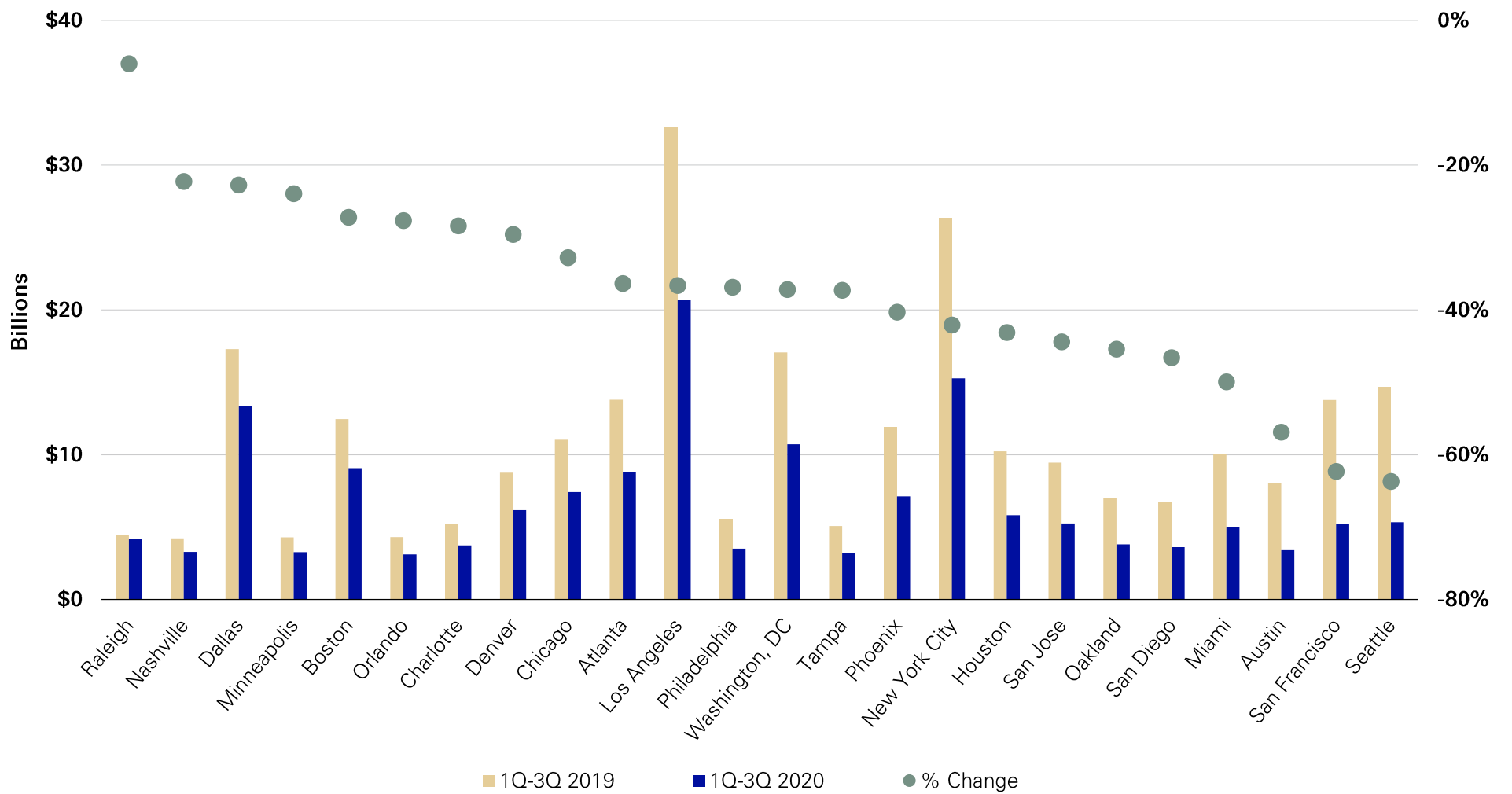


Source: Newmark Research, Real Capital Analytics

# Total Sales Volume by City

## All Property Types

COVID-19 has had a sizable impact on investment volume across all markets in 2020. However, various Sunbelt markets such as Raleigh and Nashville have been among the most resilient. A handful of gateway markets have also been less severely impacted, such as Dallas which has benefited from corporate relocations and favorable demographic tailwinds, as well as Boston/Cambridge which has a thriving life science sector.



Source: Newmark Research, Real Capital Analytics

# Top United States Transactions

## 3Q20; All Property Types

Single Asset Trades	
Property	\$Price
<b>Southern Towers</b> Alexandria, Virginia Multifamily Buyer: CIM Group	<b>\$506 M</b>
<b>1375 Broadway</b> New York, New York Office Buyer: Savanna, Declaration Capital	<b>\$435 M</b>
<b>633 West 5<sup>th</sup> Street / US Bank Tower</b> Los Angeles, California Office Buyer: Silverstein Properties	<b>\$430 M</b>
<b>1209 124th Avenue NE</b> Bellevue, Washington Office Buyer: Facebook	<b>\$379 M</b>
<b>333 South Wabash</b> Chicago, Illinois Office Buyer: SHVO, Deutsche Finance Group	<b>\$376 M</b>

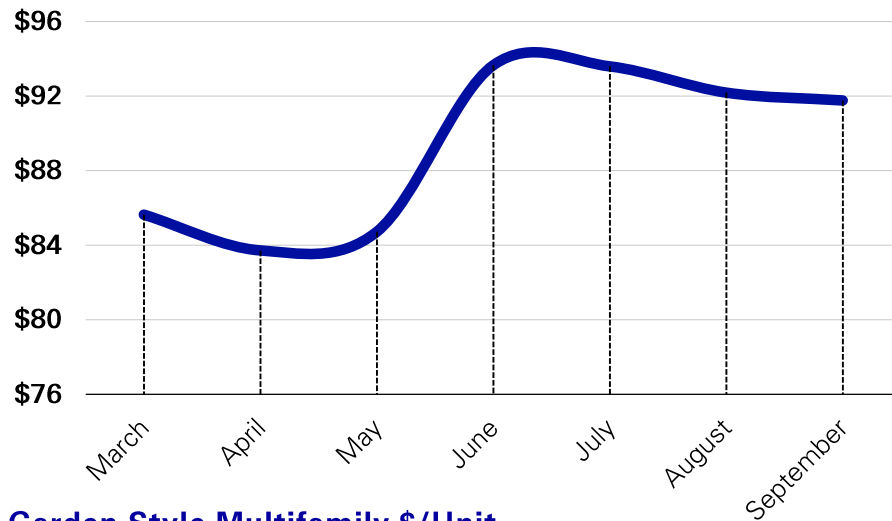
Portfolio Trades	
Property	\$Price
<b>Caesars Casino</b> 3 Properties Hospitality Buyer: VICI Properties	<b>\$1.8 B</b>
<b>West Coast Multifamily (Partial Interest)</b> 4,050 Units Multifamily Buyer: Institutional Investor	<b>\$960 M</b>
<b>Hollywood Media (Partial Interest)</b> 7 Properties Office/Studio Buyer: Blackstone	<b>\$808 M</b>
<b>RTP Life Sciences</b> 6 Properties Office/Industrial Buyer: Alexandria	<b>\$610 M</b>
<b>West Coast Seniors Housing (Partial Interest)</b> 1,499 Units Seniors Housing Buyer: AEW Capital, Merrill Gardens	<b>\$562 M</b>

Source: Newmark Research, Real Capital Analytics

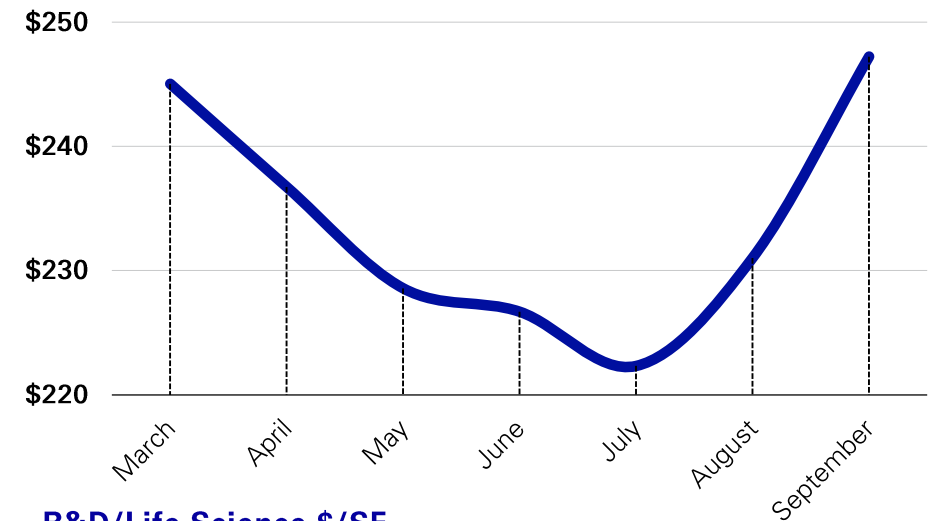
# Shapes of the Recovery - Pricing

The initial recovery from COVID-19 has differed across property types and markets – warehouse / logistics product experienced a shallow decline in April and May but has since become the most-favored property subtype, with pricing surpassing pre-COVID-19 levels. Suburban office pricing has experienced a more traditional V-shape recovery, as more companies have pivoted to hub-and-spoke models, and as urban product has been most severely impacted.

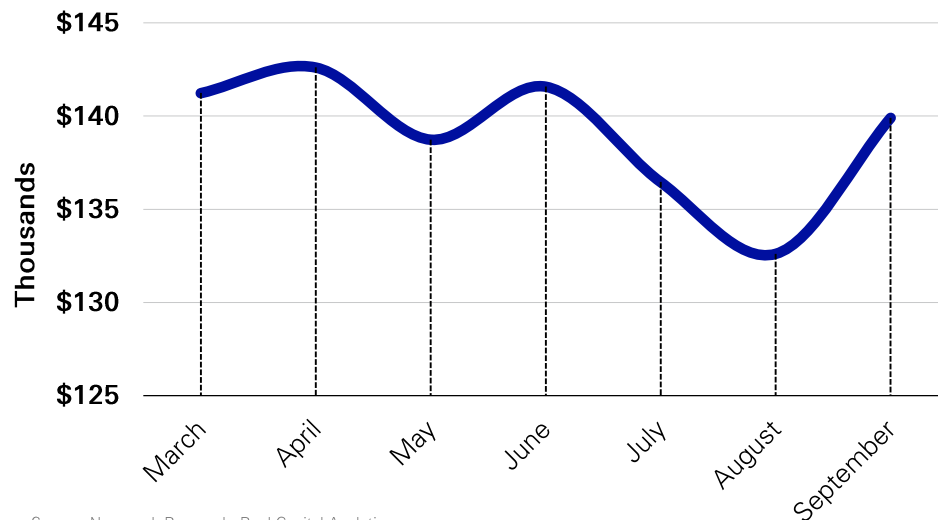
**Warehouse/Logistics \$/SF**



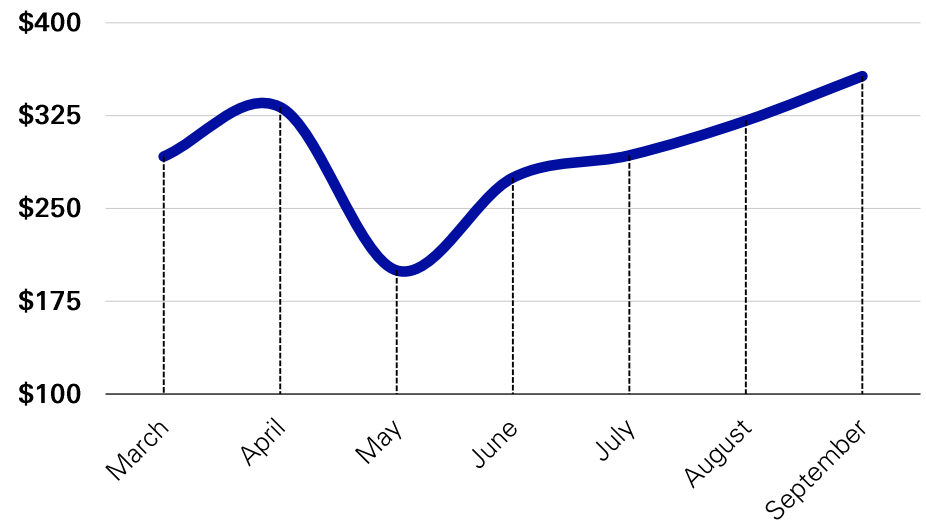
**Suburban Office \$/SF**



**Garden Style Multifamily \$/Unit**



**R&D/Life Science \$/SF**

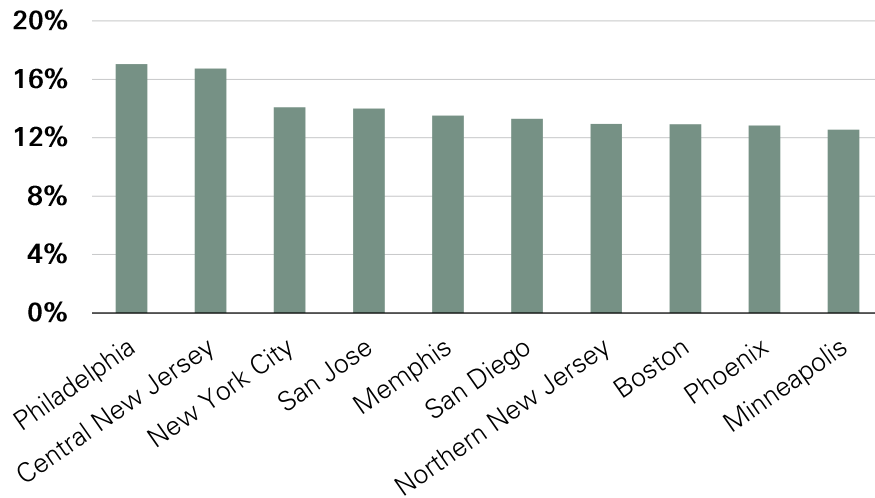


Source: Newmark Research, Real Capital Analytics

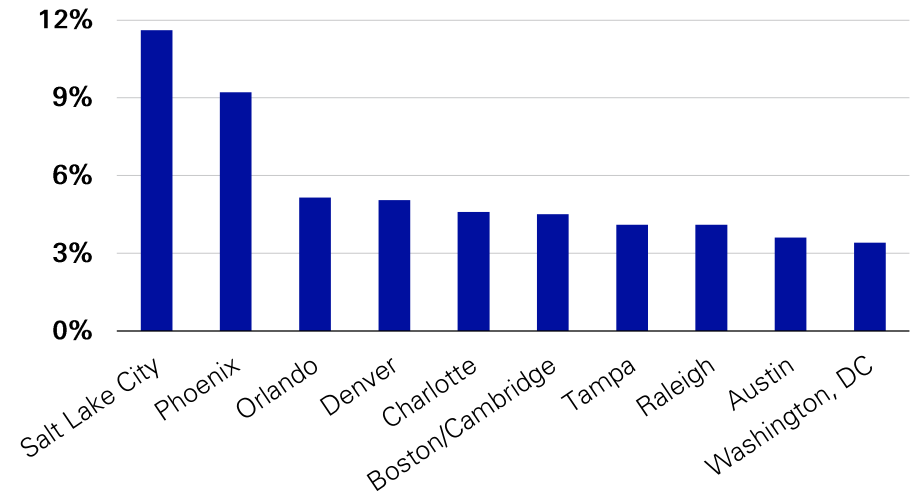
# Top Ten Markets by Total Returns and Property Type

The top ten industrial markets recorded the highest total returns in real estate and are concentrated around some of the largest metropolitan areas in the country, benefiting from the increased demand for last-mile and distribution facilities.

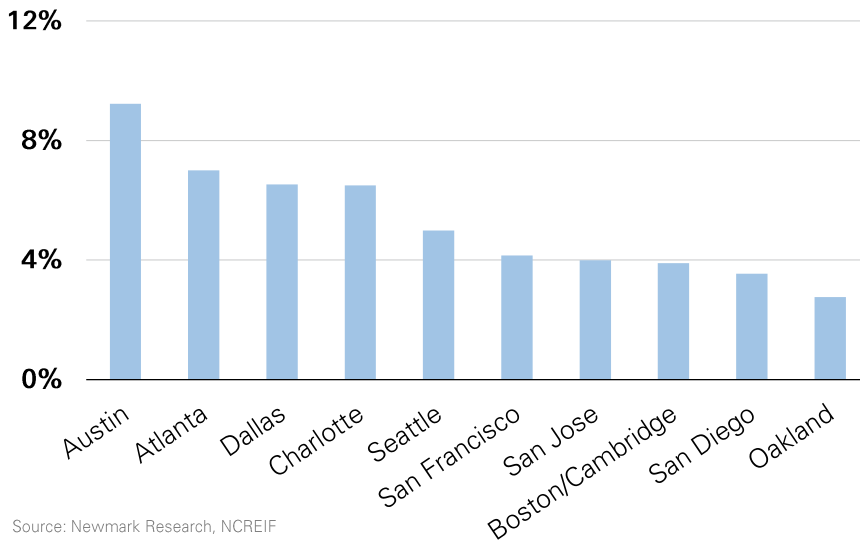
## Industrial



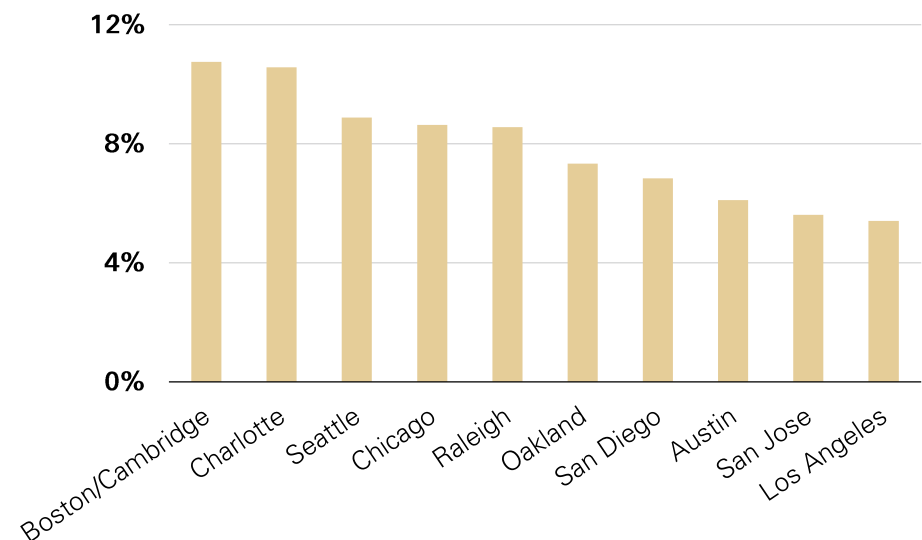
## Multifamily



## Urban Office



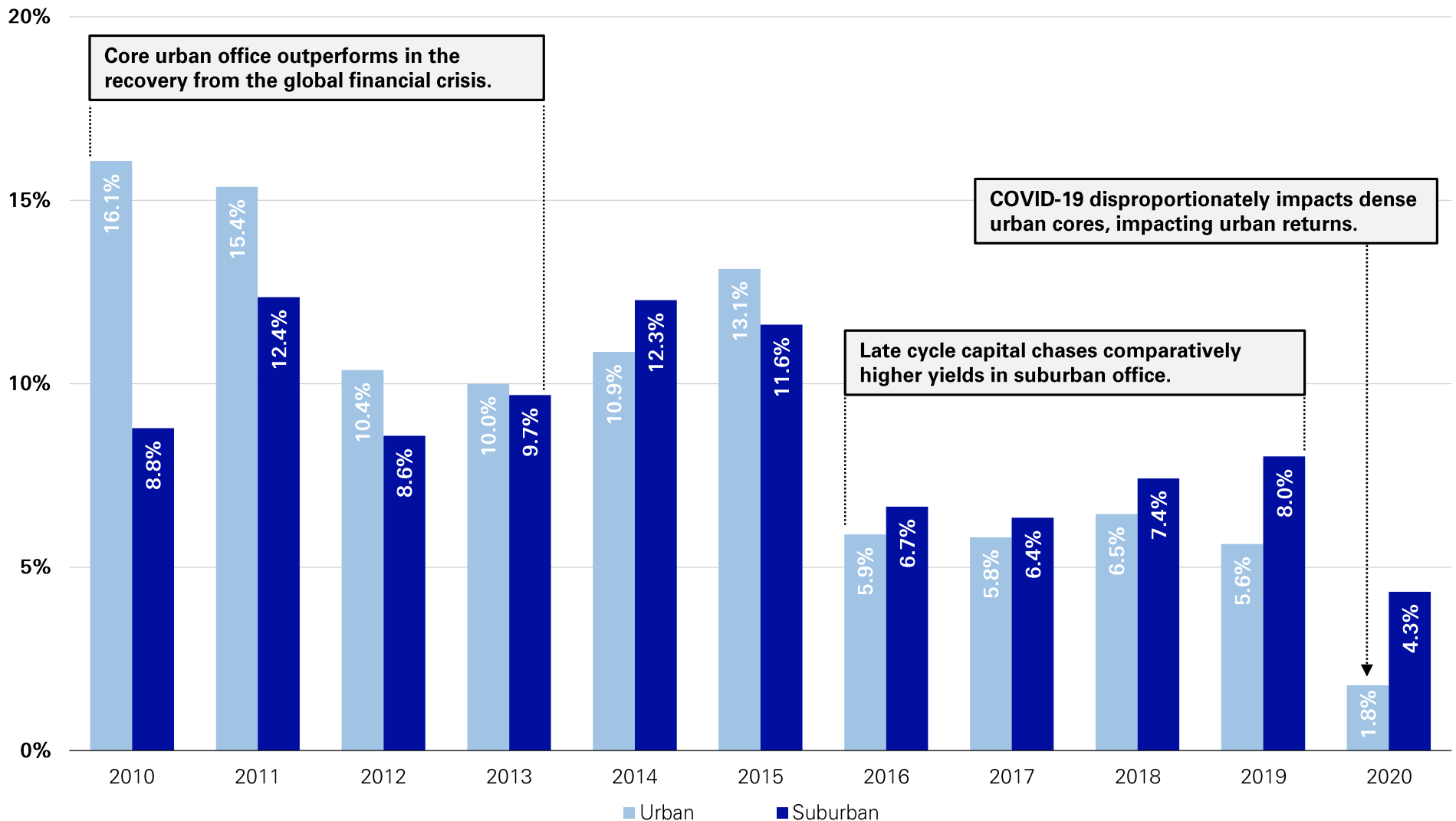
## Suburban Office



Source: Newmark Research, NCREIF

# Suburban vs. Urban Office Total Returns

Demand for office product has shifted over time, with momentum in suburban real estate continuing into 3Q20 as dense urban markets experience higher levels of COVID-19-related disruption.



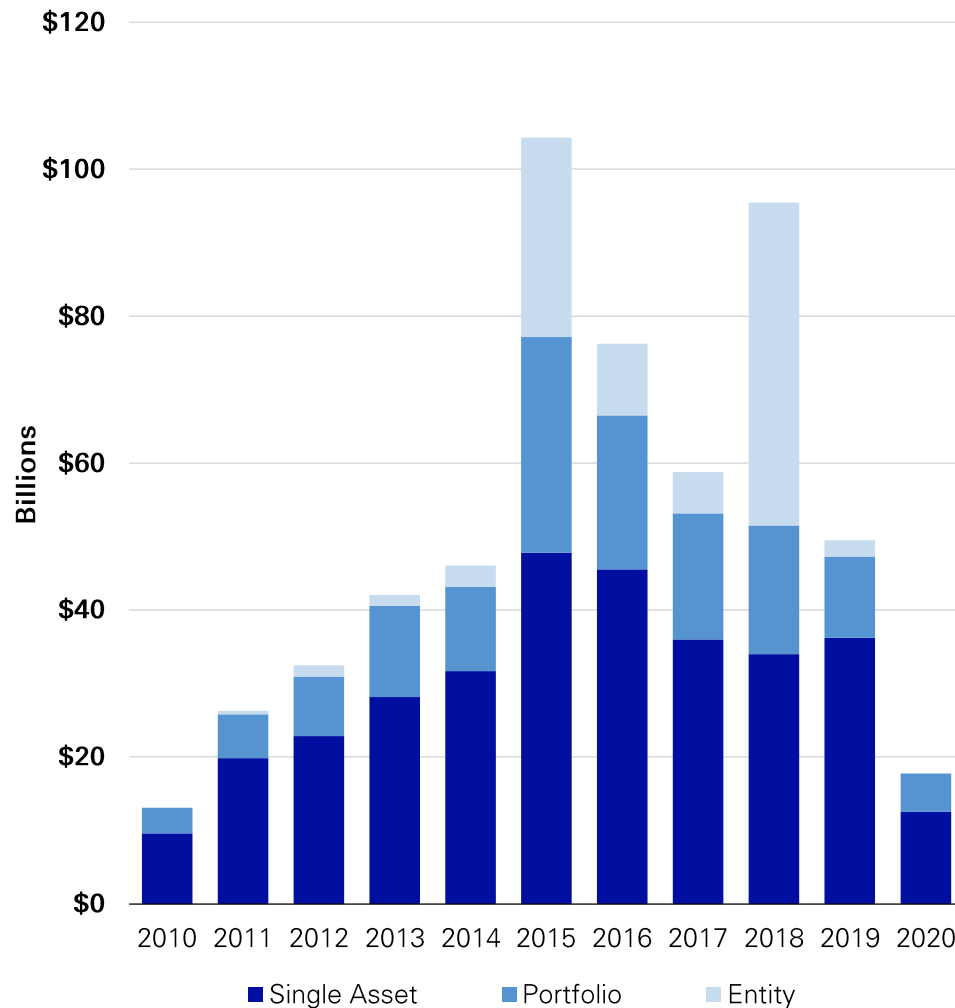
Source: Newmark Research, NCREIF



# Composition of International Capital

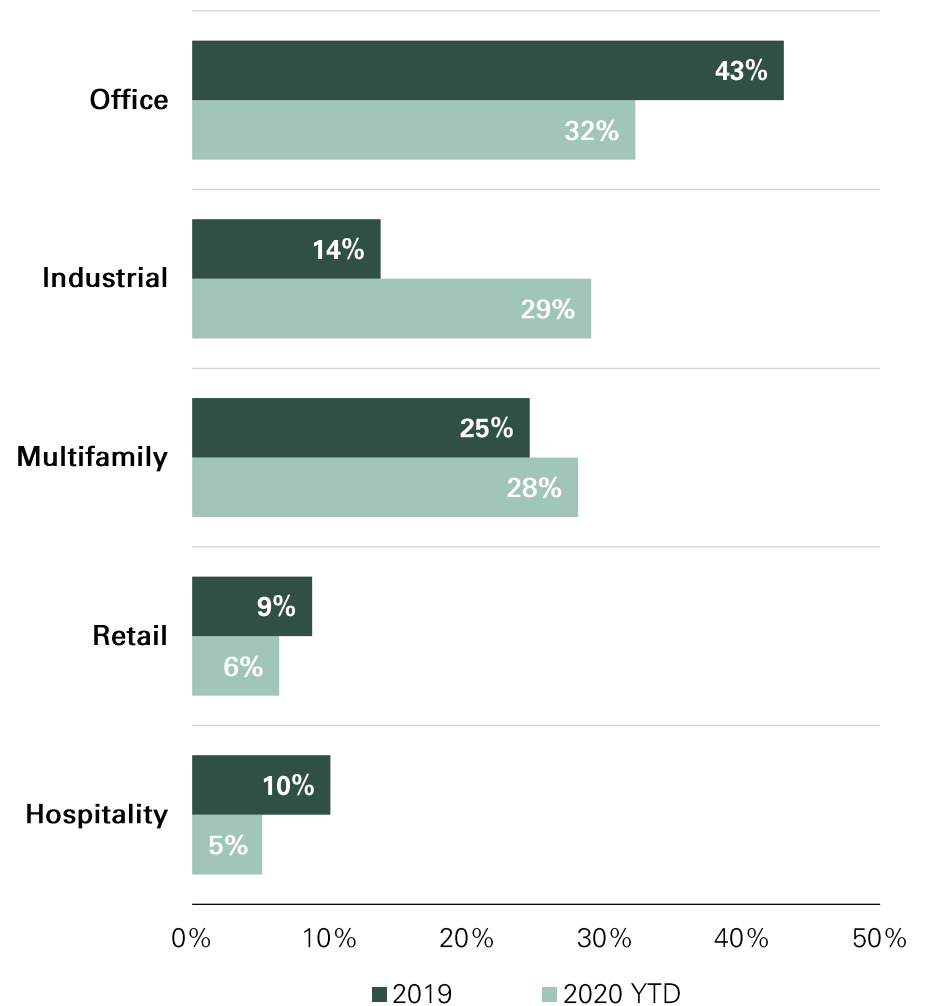
International groups have been involved in some of the largest transactions since the pandemic began, including a stake in One Madison in New York City, reflecting their continued preference for core gateway office product. However, international capital has also increasingly targeted industrial and multifamily, with their allocations increasing by 15% and 3% respectively in 2020 year-to-date compared with 2019.

## Investment Volume By Deal Type



Source: Newmark Research, Real Capital Analytics

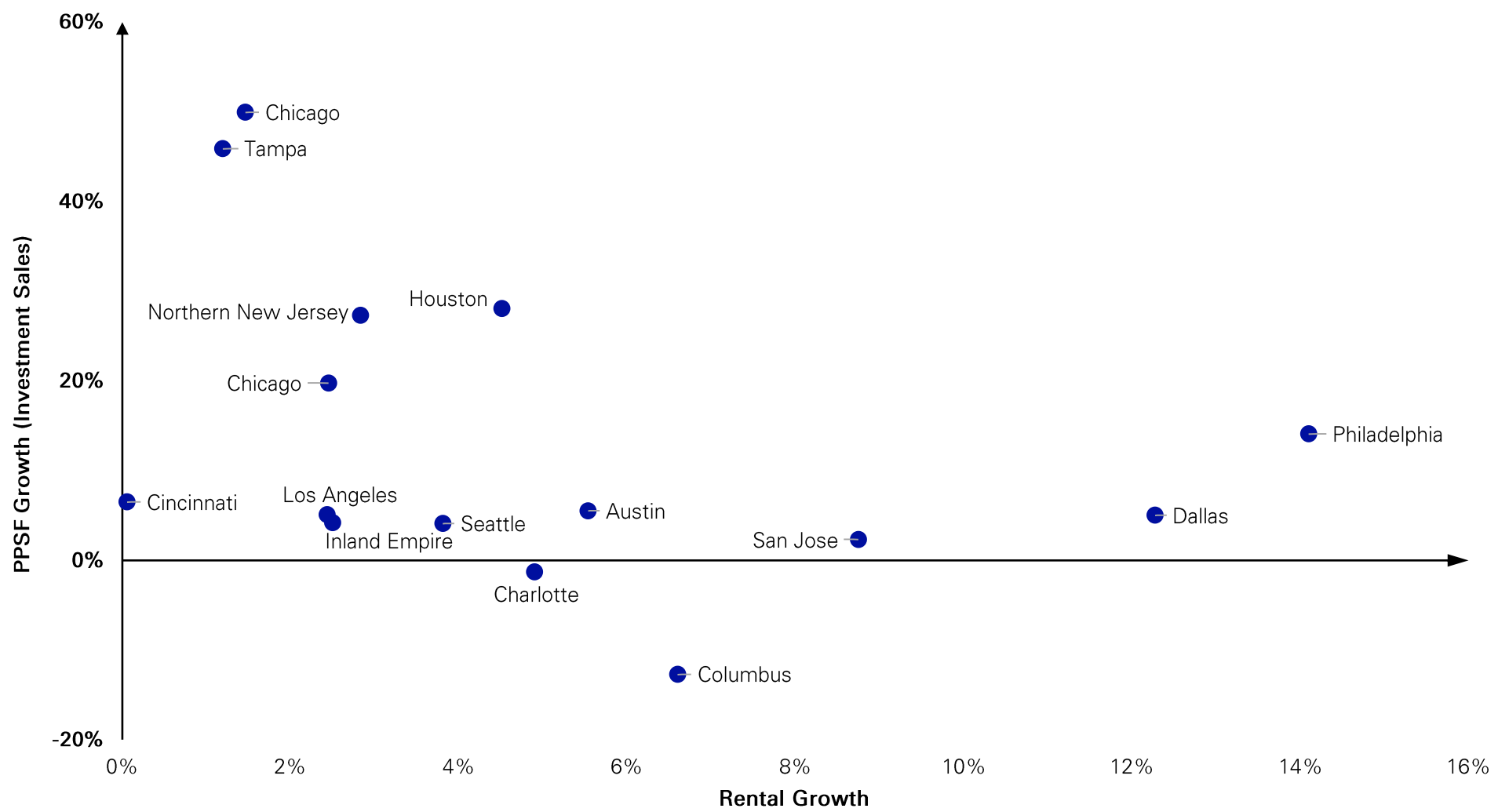
## Allocation of Capital



# Industrial Rental Growth vs. PPSF Growth

## 3Q20 Compared with 2019 Average

Spurred by the growth of e-commerce leasing and investment activity, industrial markets across the country continued to grow in 3Q20 despite the pandemic. Philadelphia recorded some of the highest level of rental growth, aided by over five million square feet in Amazon leasing activity year-to-date. In Chicago, Prologis led acquisition activity, with over \$1.2 billion in logistics product acquisitions in 2020.

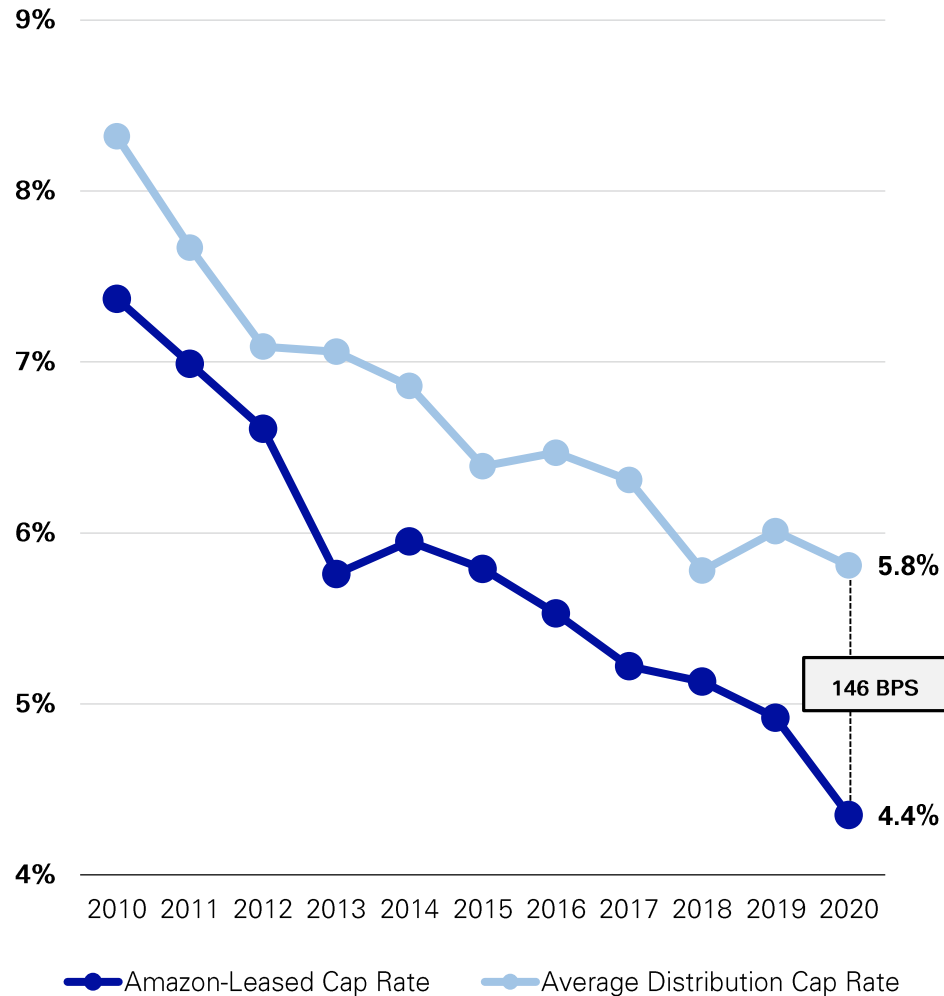


Source: Newmark Research, Real Capital Analytics

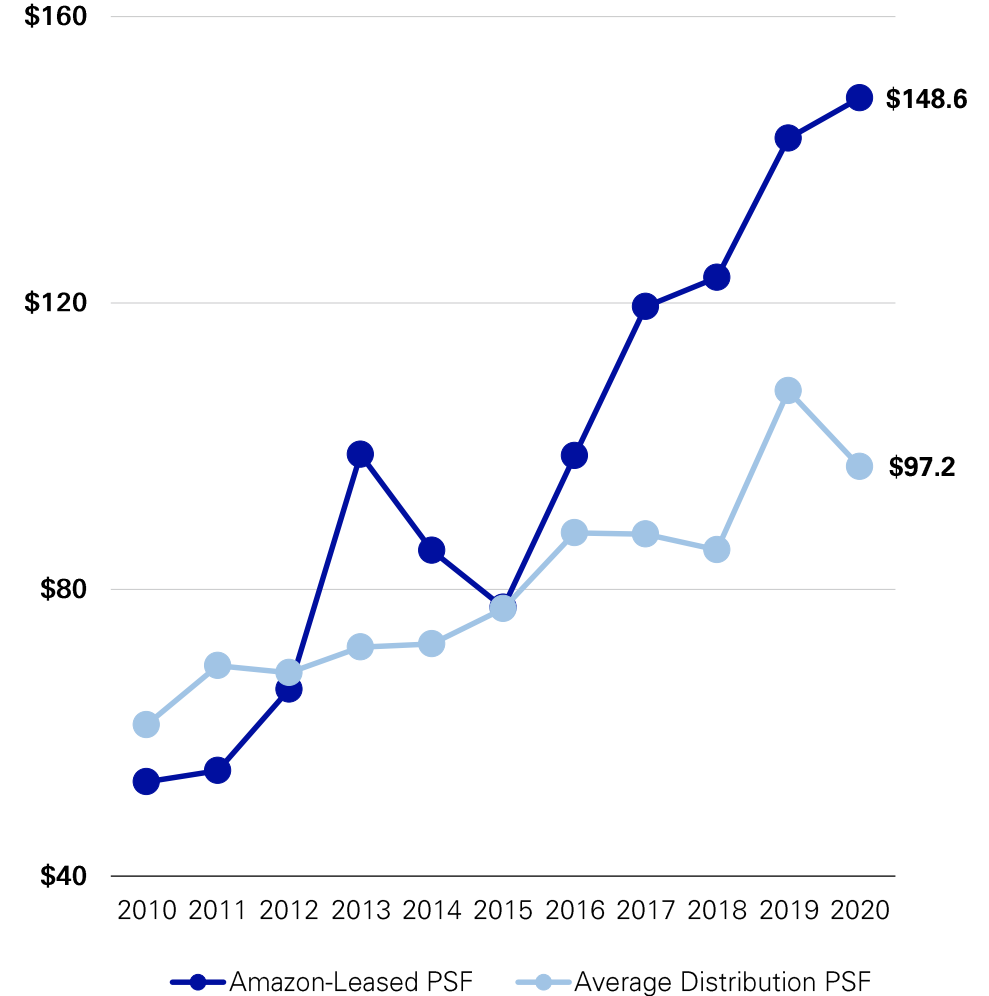
# The Amazon Effect – Industrial Assets

Amazon has grown to be one of the largest occupiers of industrial product in the US, with an industrial distribution footprint larger than 200 million square feet. Similarly, investor demand has propelled Amazon-leased investment sales pricing up 94% over the past five years, compared with 25% for non-Amazon product. Cap rate compression has continued into 2020, with Amazon-leased product commanding a record premium of 146 BPS, well over the 10-year average of 92 BPS.

## Cap Rate Comparison



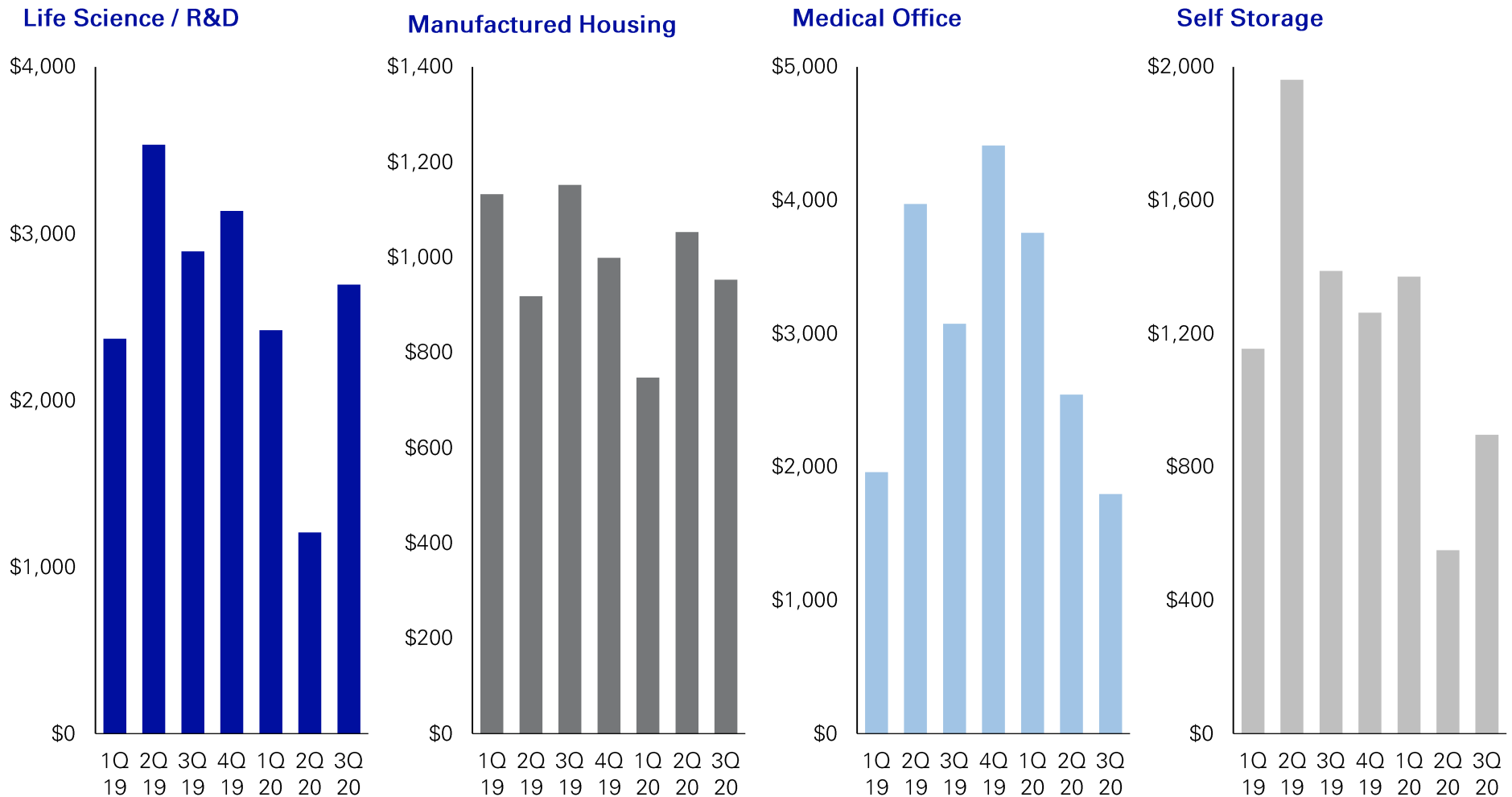
## Price Per Square Foot Comparison



Source: Newmark Research, Real Capital Analytics

# Specialty Assets and Subtypes

Life science product has been one of the most sought-after property types in 2020, with investment volume up 123% quarter-over-quarter, and that volume expected to rise further. Manufactured housing has also attracted considerable investment, in part due to its perceived counter-cyclical characteristics and high demand from residents in search of more affordable housing options.

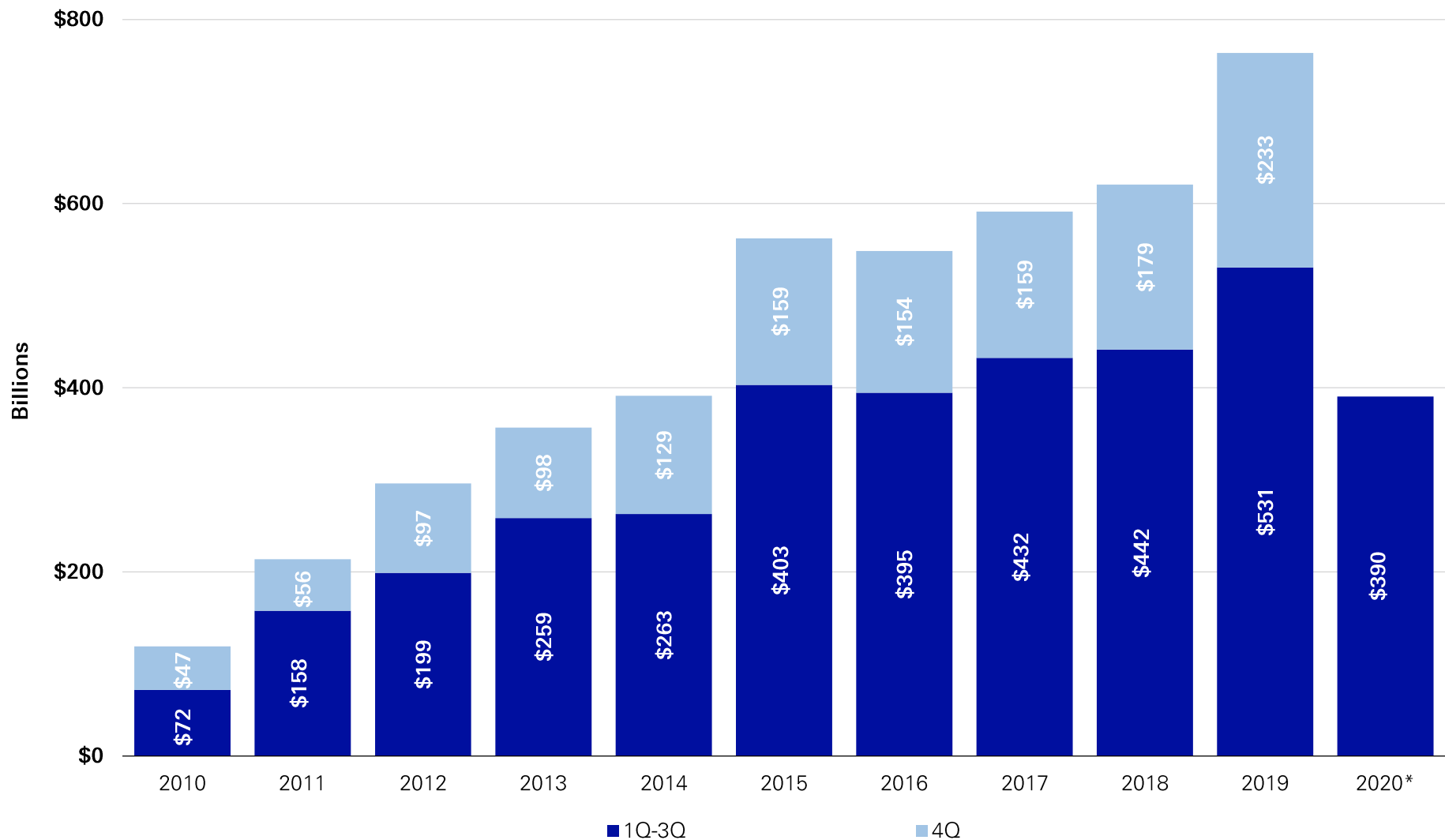


Source: Newmark Research, Real Capital Analytics

# United States Total Financing Volume

## Acquisition, Construction and Refinancing

While financing activity declined by an estimated 26.4% year-to-date, there has been less disruption compared with investment sales. Spreads between interest rates and office, industrial and multifamily cap rates have increased, as the 10-year treasury rate remains below 1%.

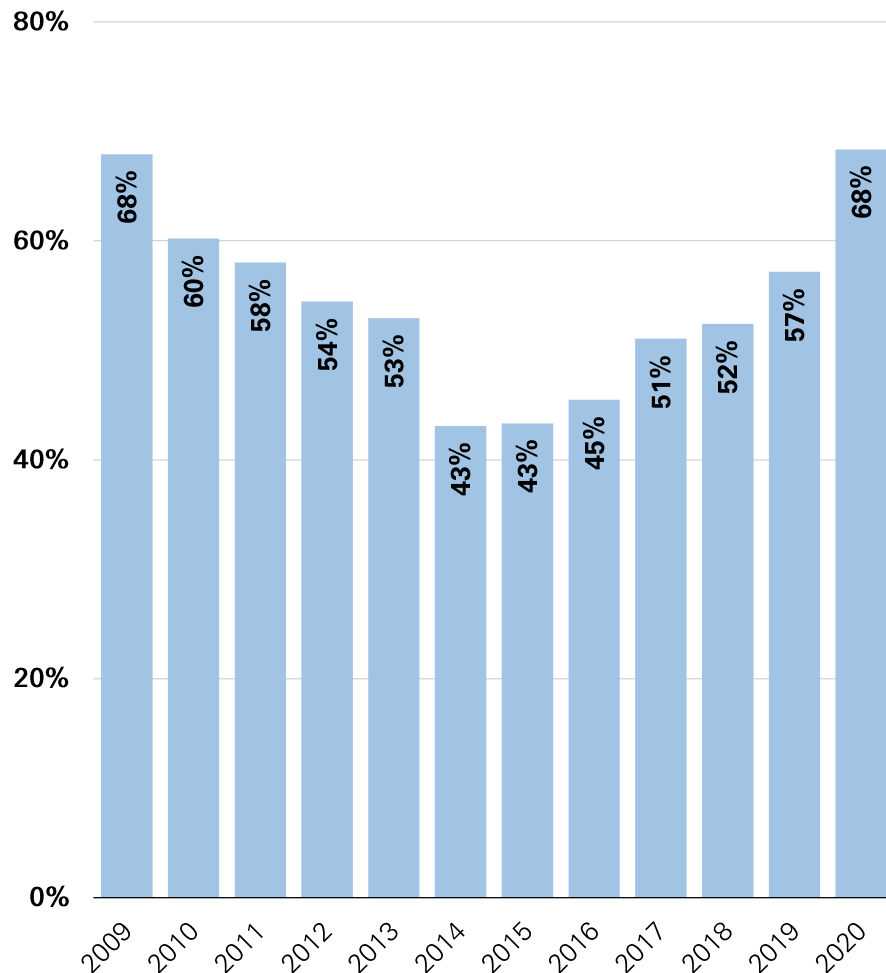


\*Preliminary  
Source: Newmark Research, Real Capital Analytics

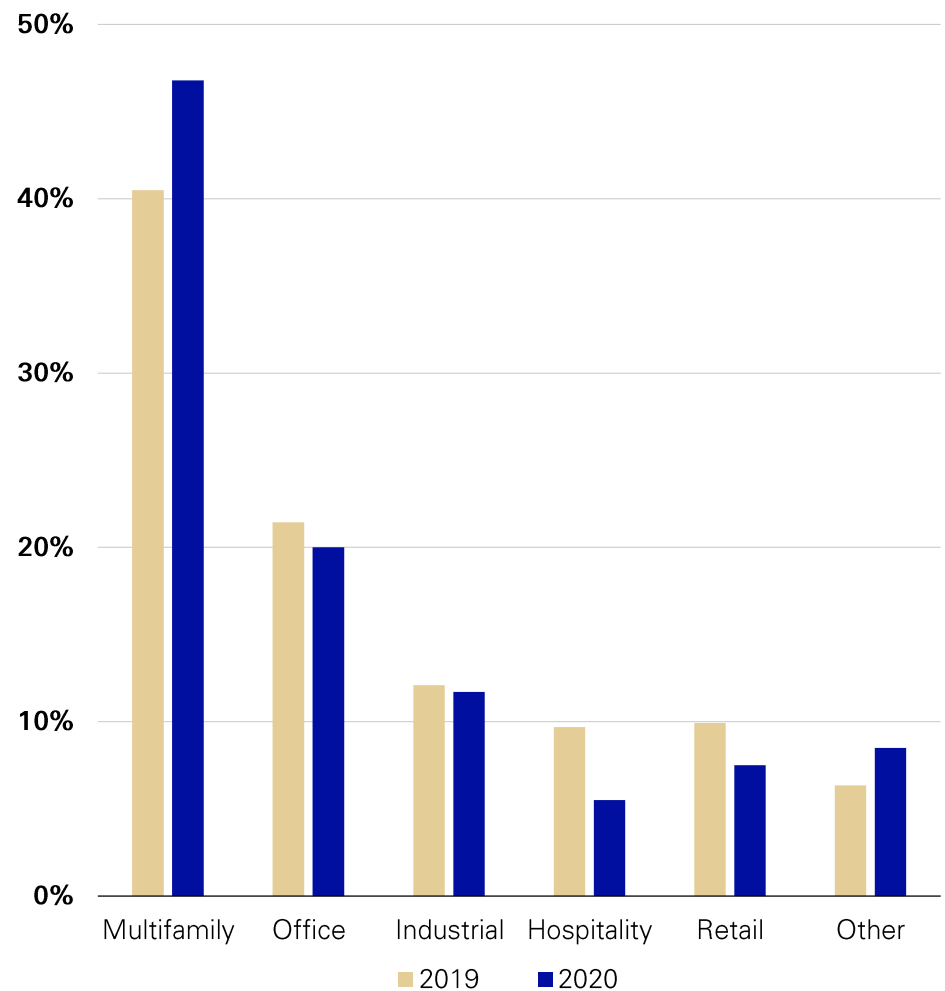
# United States Financing Activity

Refinancing activity has expanded to its highest level in over a decade, reaching 68.4% of 2020 lending volume, as many would-be sellers have refinanced their properties, waiting for more stable market conditions to emerge. Multifamily lending has made up an even larger component of overall lending in 2020, as Fannie Mae and Freddie Mac continue to be active.

## Refinancing as Percentage of Total Activity



## Lending Allocation by Property Type

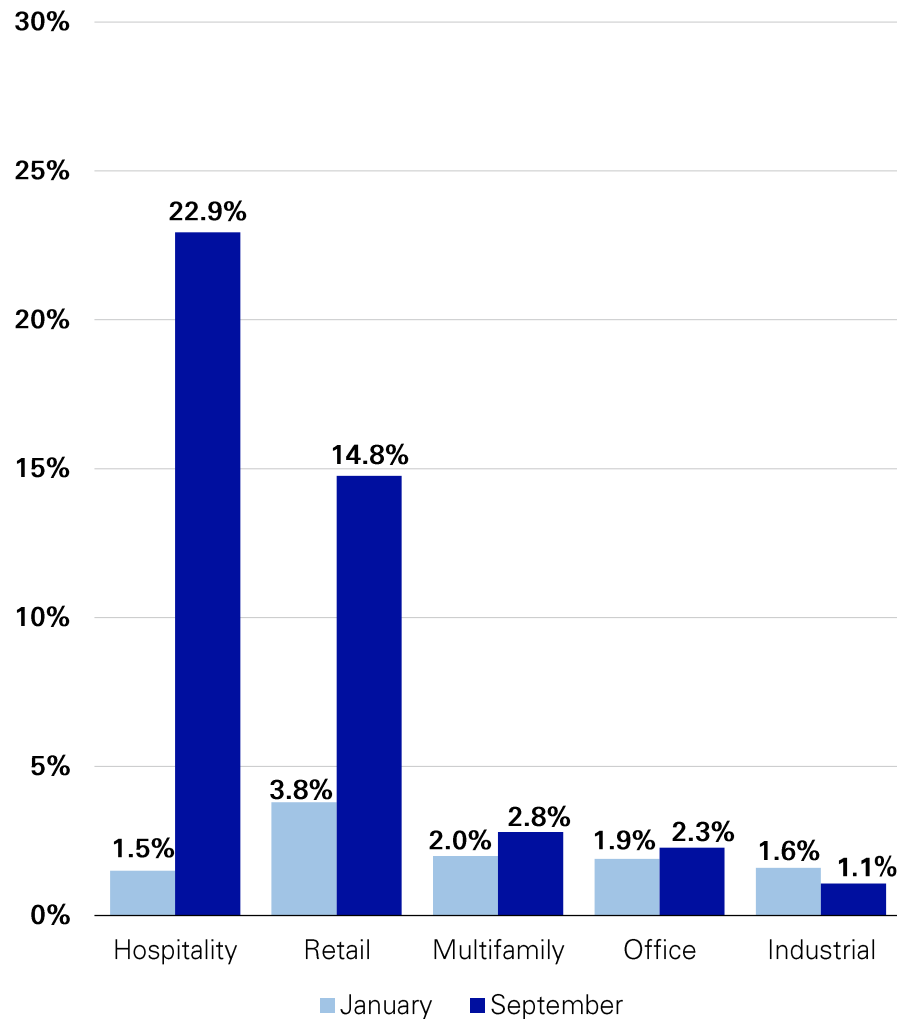


Source: Newmark Research, Real Capital Analytics

# CMBS Delinquency

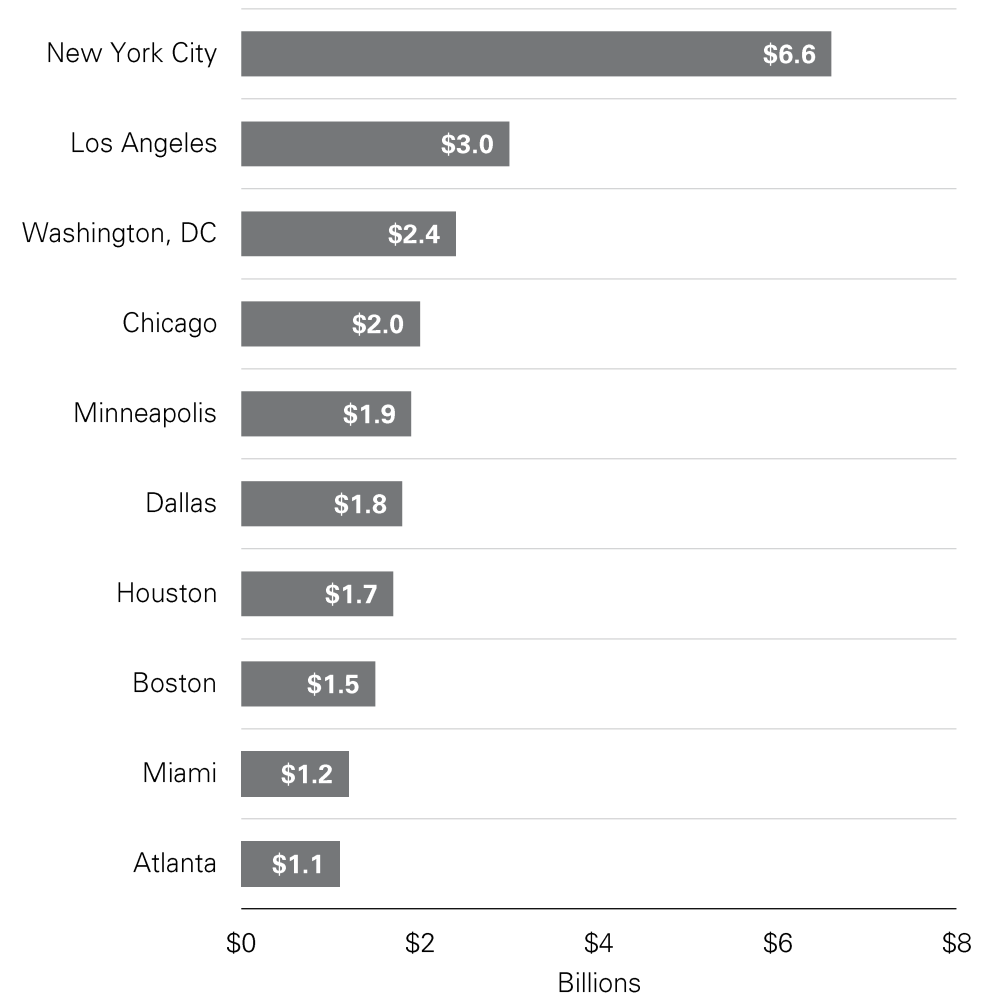
CMBS delinquencies have risen substantially to 22.9% and 14.8% in hospitality and retail, respectively, but have been largely contained within those two property types. The damage has been concentrated in dense metropolitan areas, which have witnessed the largest declines in tourism and daily foot traffic.

## By Property Type



Source: Newmark Research, Trepp

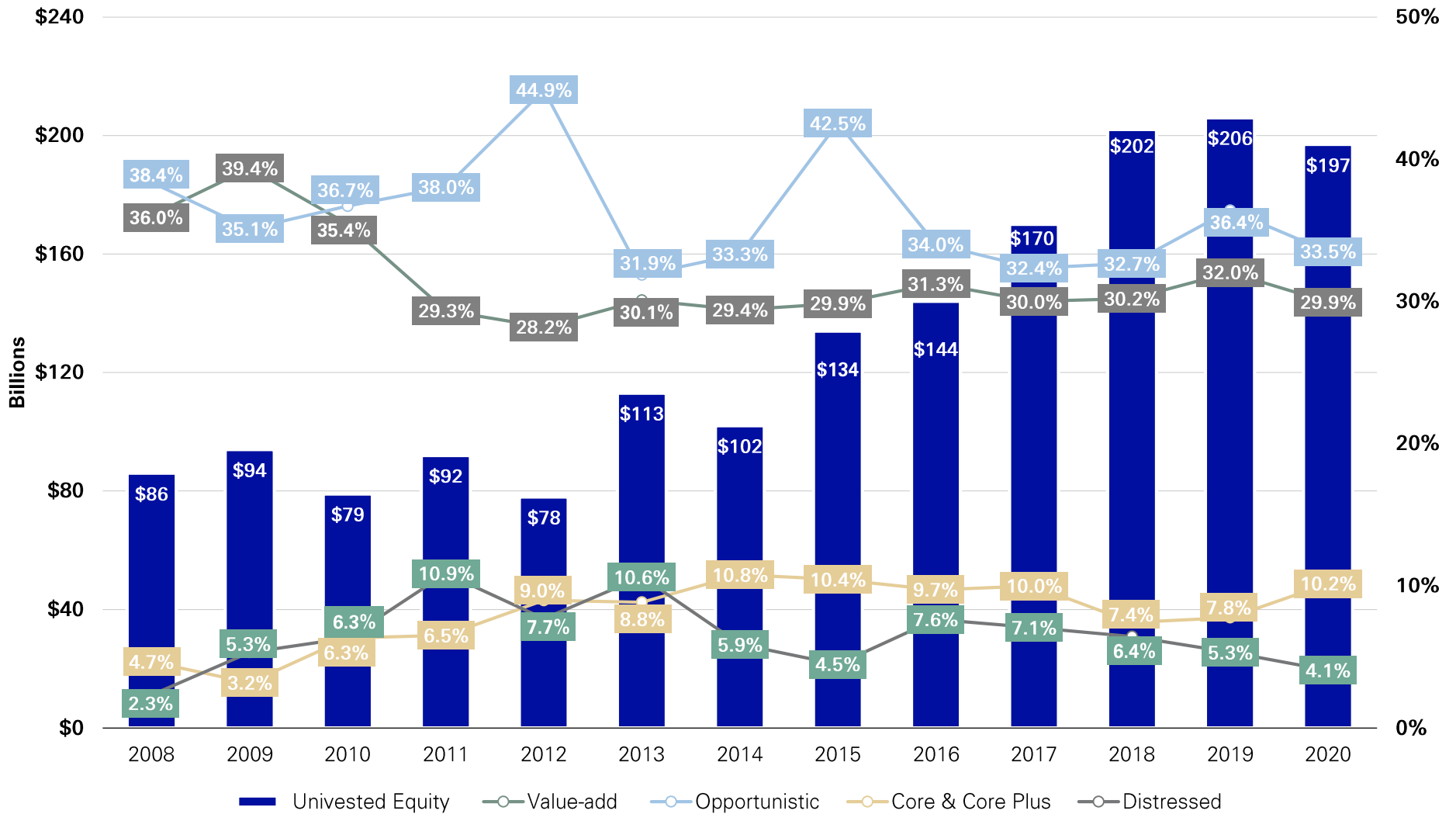
## By Metro, in Billions \$





# Dry Powder

Uninvested capital accumulated by North American-focused funds remains near pre-COVID-19 crisis levels, at \$197 billion as of the third quarter of 2020. Dry powder allocated to core and core plus strategies increased to 10.2% of the total, as investors flock to high-quality assets with stable cash flows.



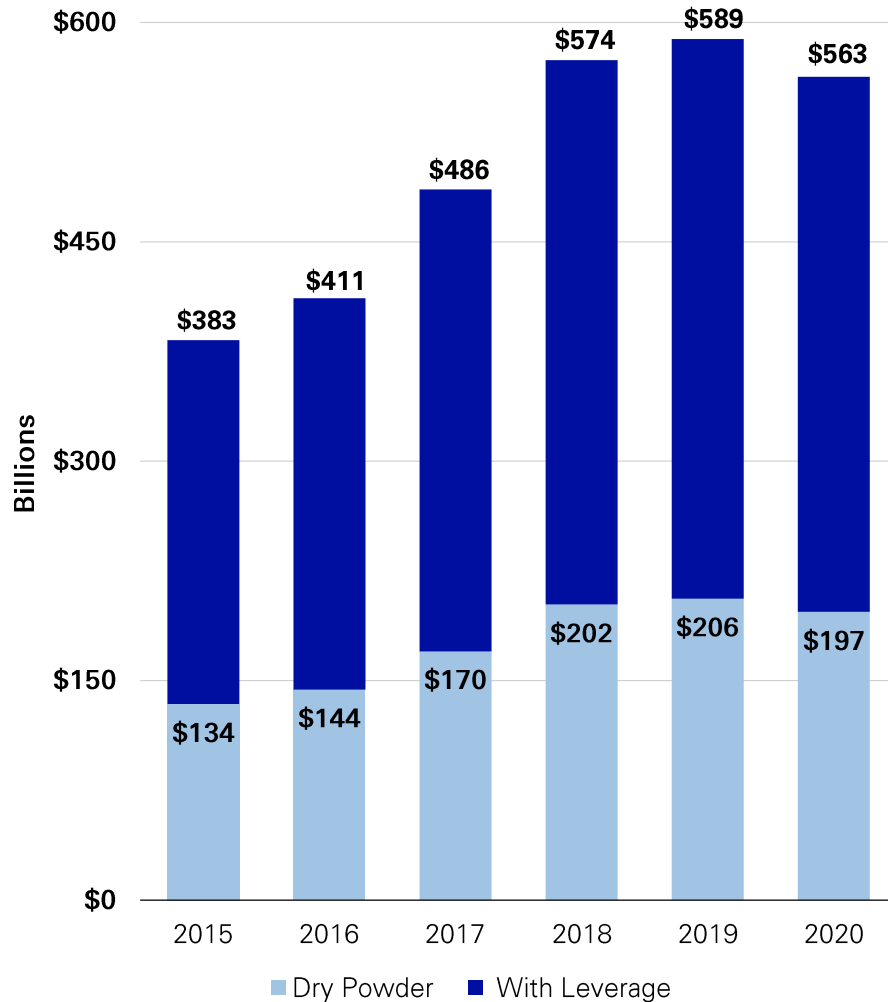
Note: Excluding Debt Funds  
Source: Newmark Research, Prequin

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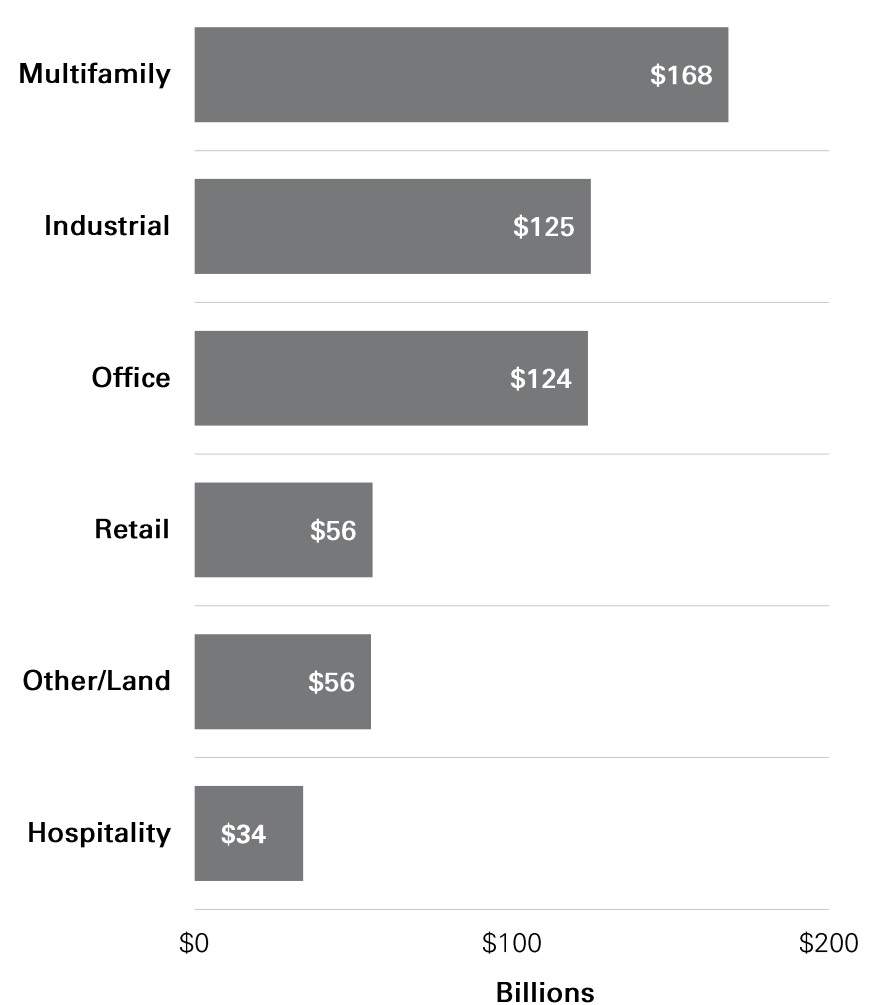
# Dry Powder with Leverage

The \$197 billion in fund dry powder equates to a purchasing power of \$562.9 billion, using a 65% LTV ratio – if investors were to allocate this dry powder according to their 2020 allocation, nearly \$170 billion would be allocated to multifamily and over \$124 billion would be allocated to both industrial and office.

### Dry Powder at 65% Leverage



### Dry Power Based on 2020 Investor Allocation

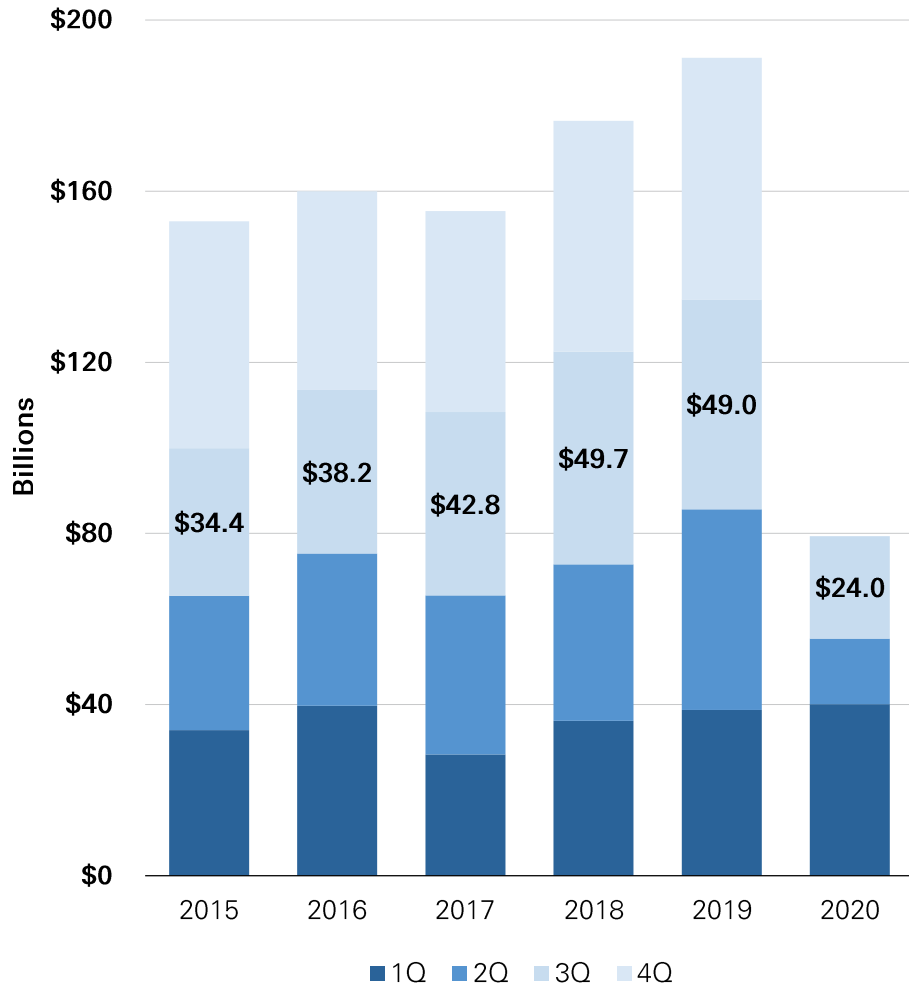


Source: Newmark Research, Real Capital Analytics, Preqin

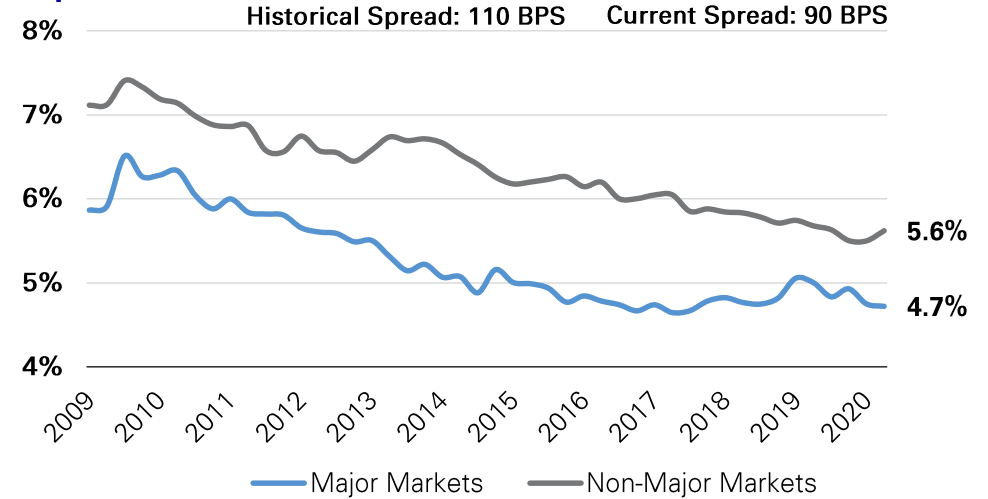
# Multifamily Dashboard

Multifamily investment volume is up 55.9% quarter-over-quarter, signaling a modest recovery is underway particularly in lower-cost and faster growing Sunbelt markets. However, both cap rates and pricing have softened substantially in major markets such as New York City and San Francisco, as they have been most impacted by the pandemic and subsequent outward migration.

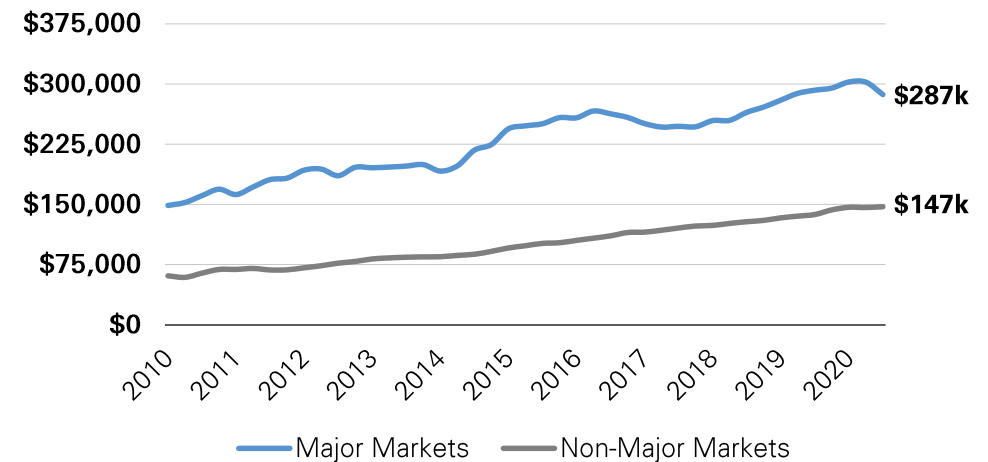
## National Sales Volume



## Cap Rates



## Price Per Unit

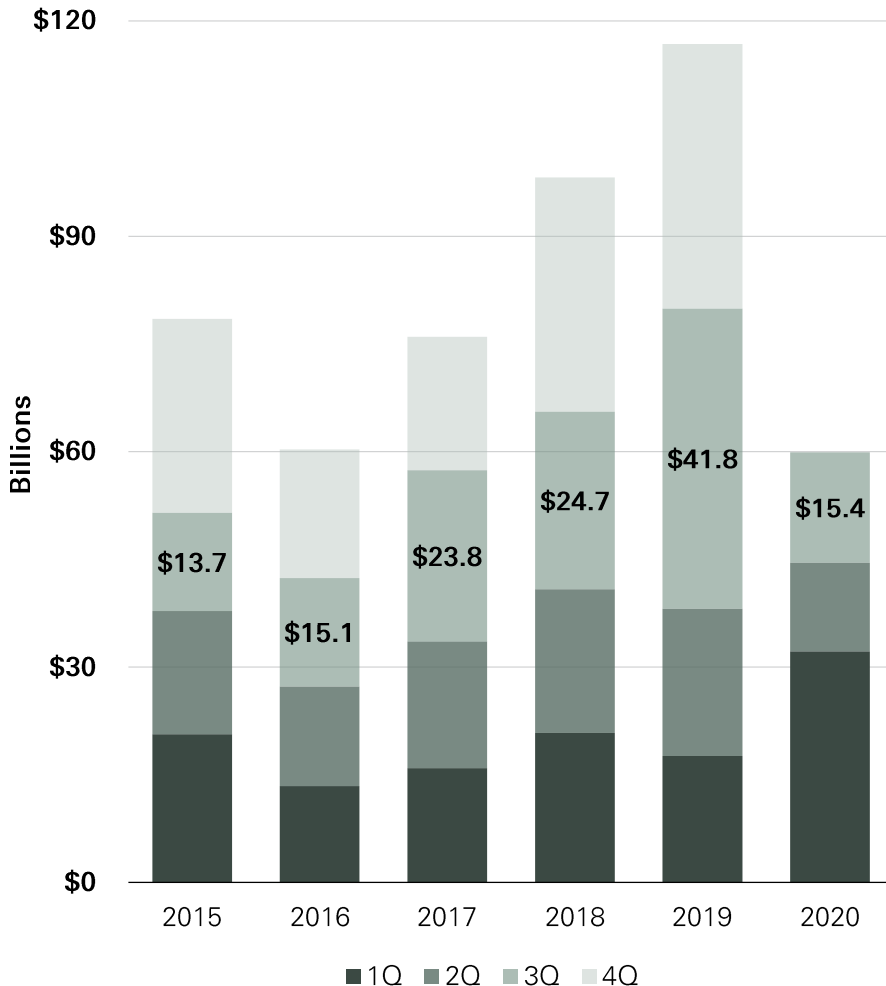


Source: Newmark Research, Real Capital Analytics

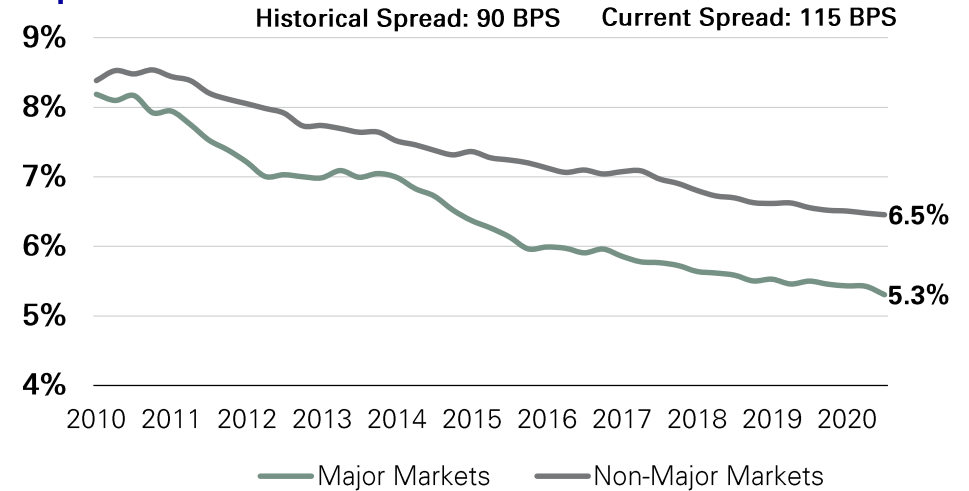
# Industrial Dashboard

Industrial, while not immune to pandemic-related disruption, has been one of the most favored property types, with volume increasing by 24.7% quarter-over-quarter and with major market cap rates achieving 12 basis points of compression over the same period. Logistics product is continuing to lease at record levels, by e-commerce companies such as Amazon, Walmart and Wayfair.

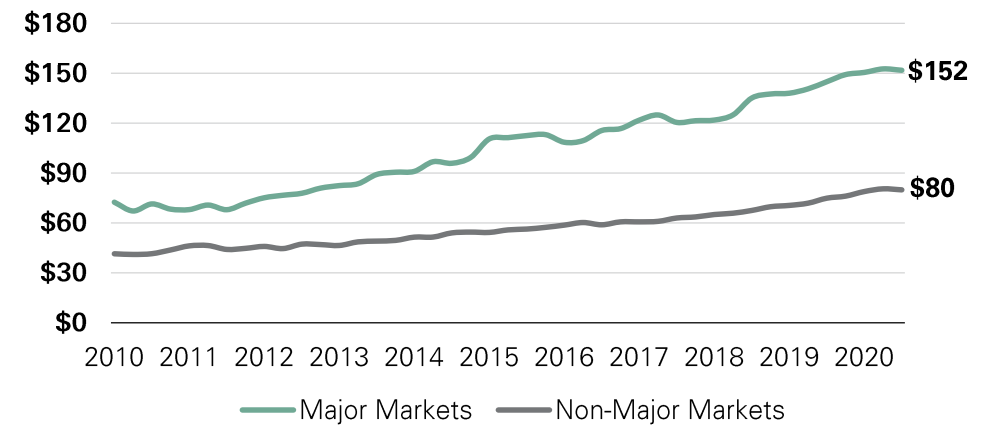
## National Sales Volume



## Cap Rates



## Price Per Square Foot

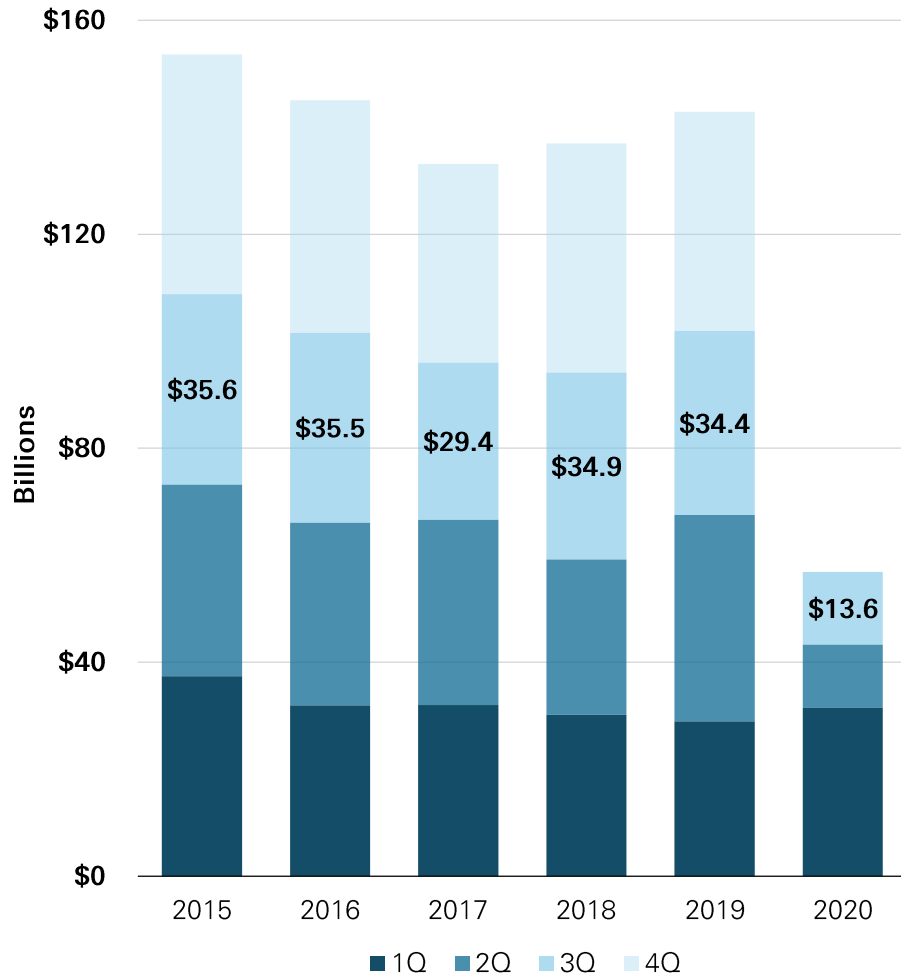


Source: Newmark Research, Real Capital Analytics

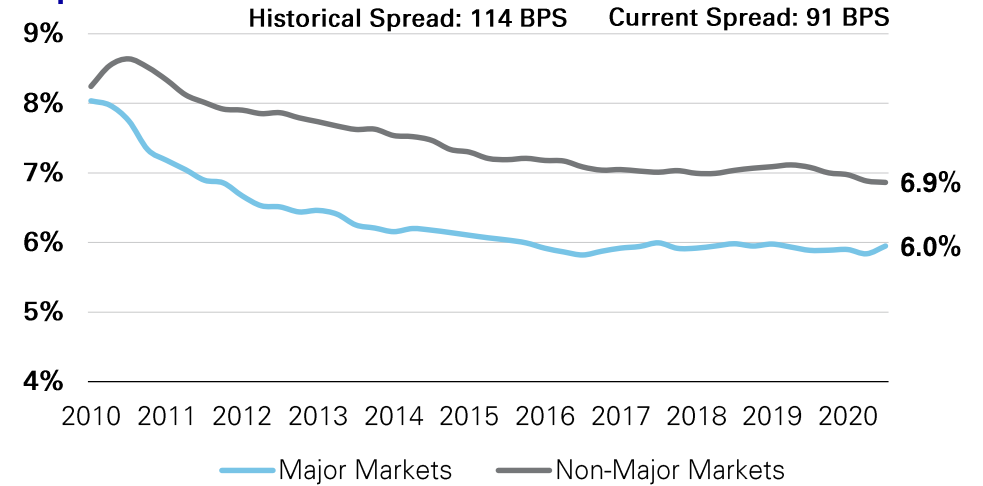
# Office Dashboard

Third quarter volume increased by 14.8% quarter-over-quarter, reinforcing that activity is returning in select markets and that price discovery is occurring. However, volume is down 60.4% year-over-year and market uncertainty continues to weigh on investor confidence. Bid-ask spreads between buyers and sellers in dense, COVID-19-impacted major markets are higher than smaller non-major markets, resulting in steeper volume declines.

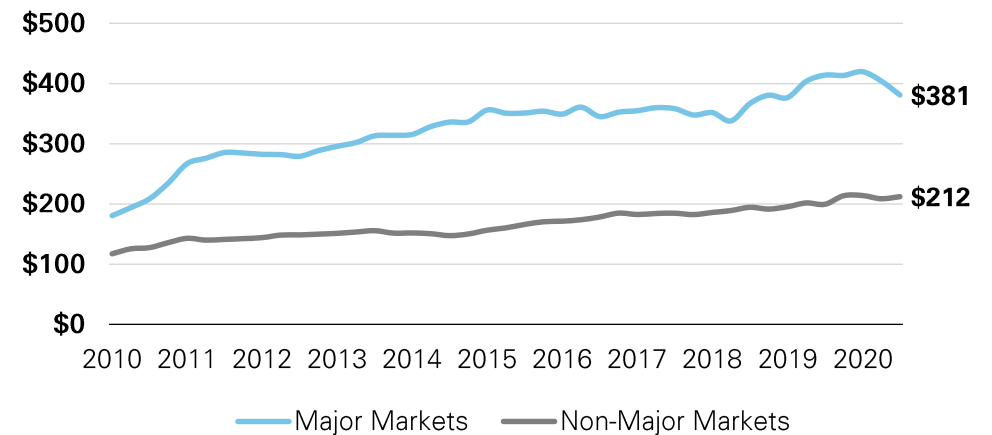
## National Sales Volume



## Cap Rates



## Price Per Square Foot

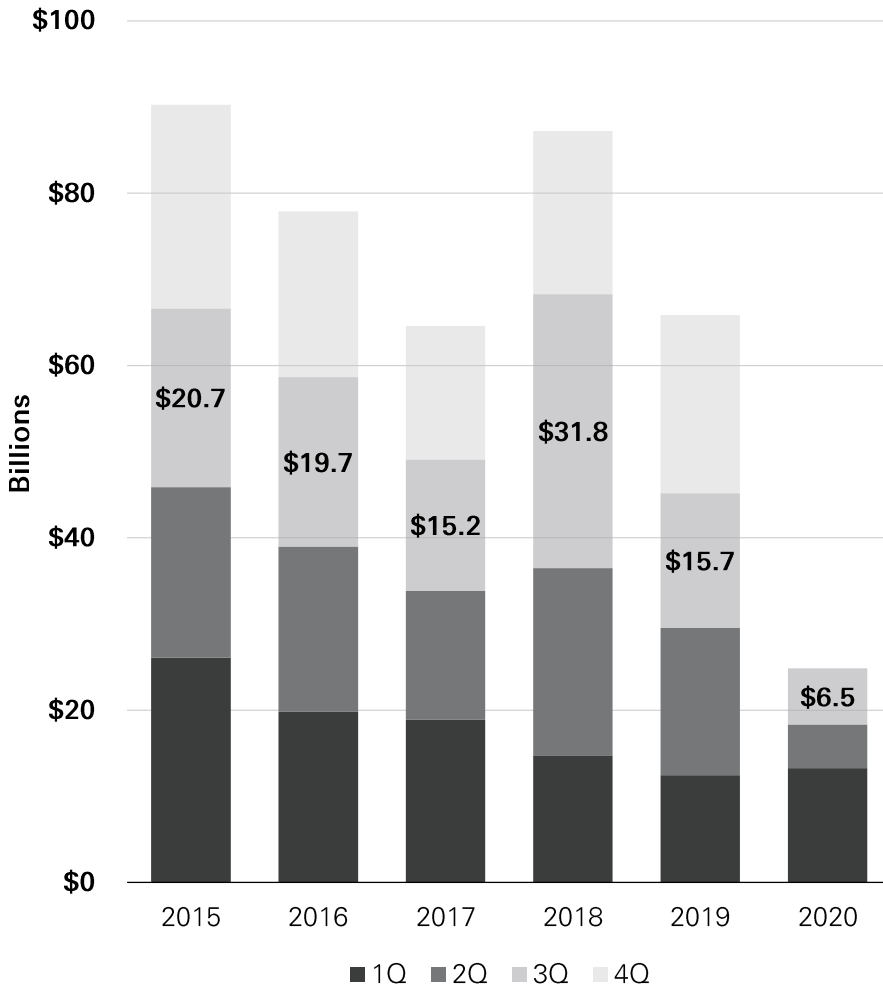


Source: Newmark Research, Real Capital Analytics

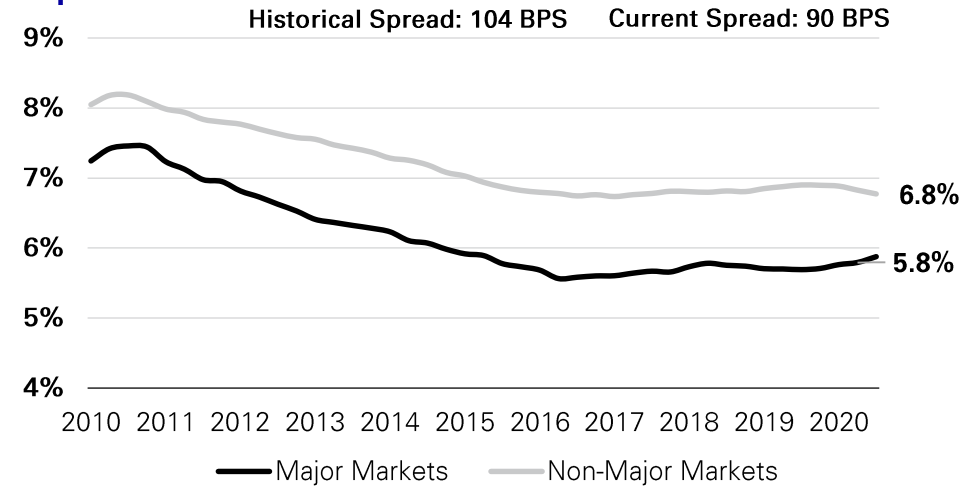
# Retail Dashboard

Retail investment sales volume increased slightly quarter-over-quarter, to \$6.5 billion, but remains down nearly 60% year-over-year. National retail rent collection has improved markedly since May along with average consumer spending, which is only down 5.7% nationally year-to-date (compared to -30.0% in March). Grocery spending is one of best performing retail segments, with spending up 10% year to date, boosting the prospects of grocery-anchored retail.

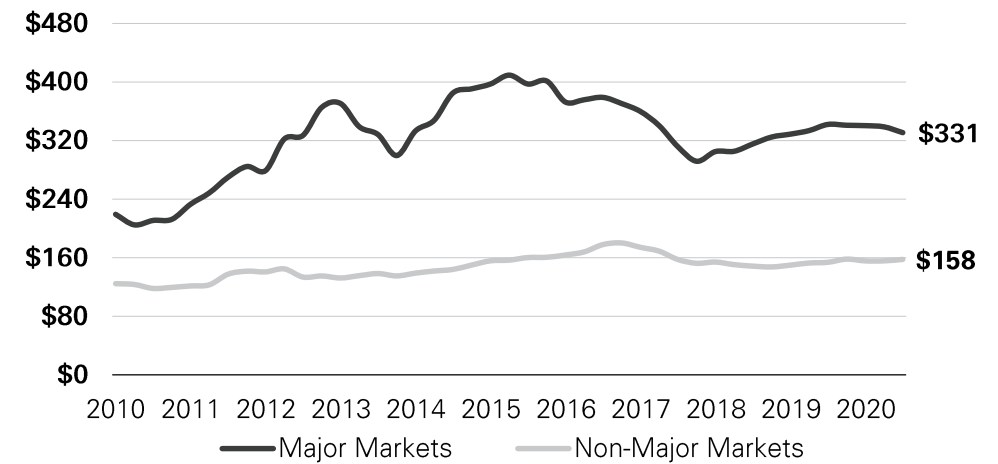
## National Sales Volume



## Cap Rates



## Price Per Square Foot

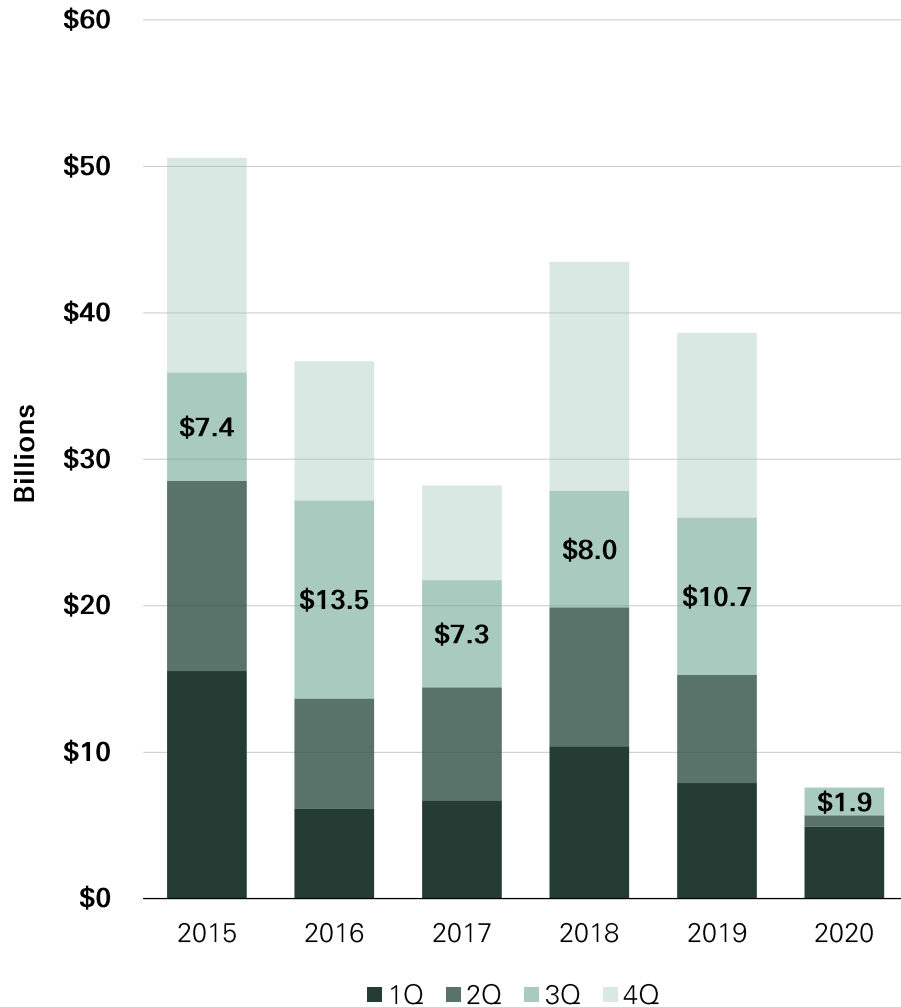


Source: Newmark Research, Real Capital Analytics

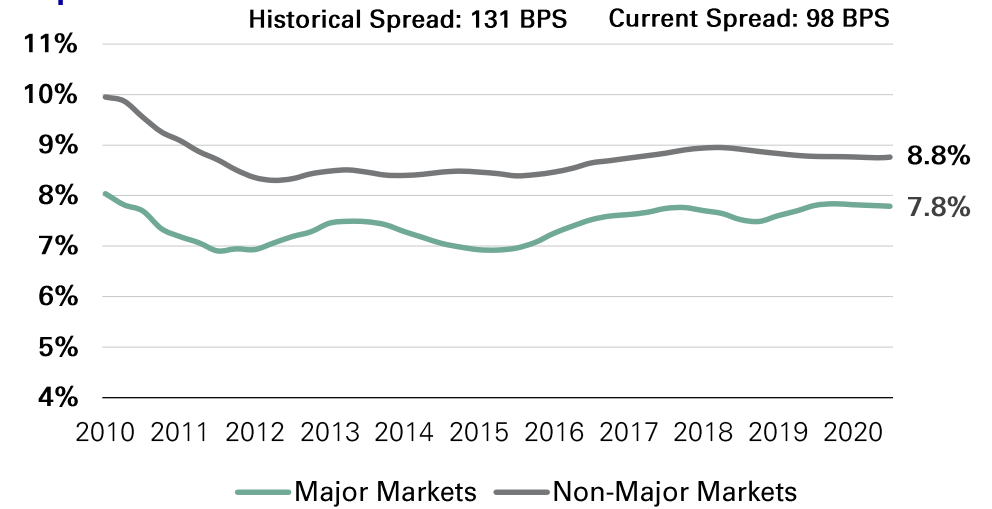
# Hospitality Dashboard

Hospitality has been the most severely impacted property type, with investment volume failing to surpass \$2 billion nationally in the third quarter. Pricing and cap rates remain steady in major markets, reflecting the limited amount of deal activity as landlords wait for signs of recovery in tourism. Drive-to leisure has been one bright spot in lodging, as lockdowns and quarantine measures have stifled traditional vacations and air travel.

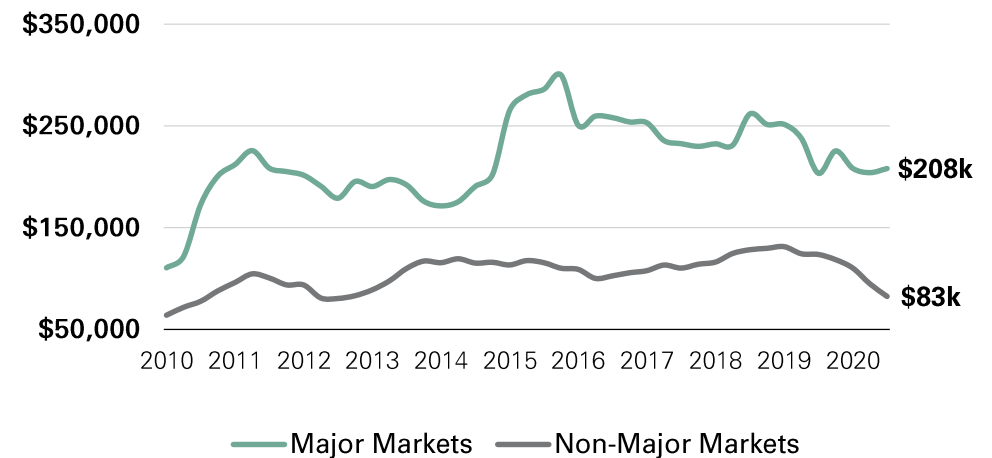
## National Sales Volume



## Cap Rates



## Price Per Key



Source: Newmark Research, Real Capital Analytics



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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at [ngkf.com/research](http://ngkf.com/research).

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